

UMASS/AMHERST



312066016459486



Digitized by the Internet Archive
in 2014

<https://archive.org/details/annualreportfory9909mass>

WFS. PR38.1:990

✓



Annual report
for the year ended
June 30, 1990

THE PENSION
RESERVES
INVESTMENT
TRUST
FUND

PENSION

RESERVES

INVESTMENT

TRUST

FUND

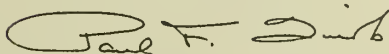
Dear Participants:

The PRIM Board and PRIT Fund were created by an act of the Legislature in December, 1983. When I was appointed Acting Executive Director in the Summer of 1984, PRIM/PRIT was nothing more than a concept...a vision of pooling and investing public employee pension fund monies, using the most modern techniques and investment vehicles. In this my last Annual Report to you, I am pleased to report that we have made that vision a reality.

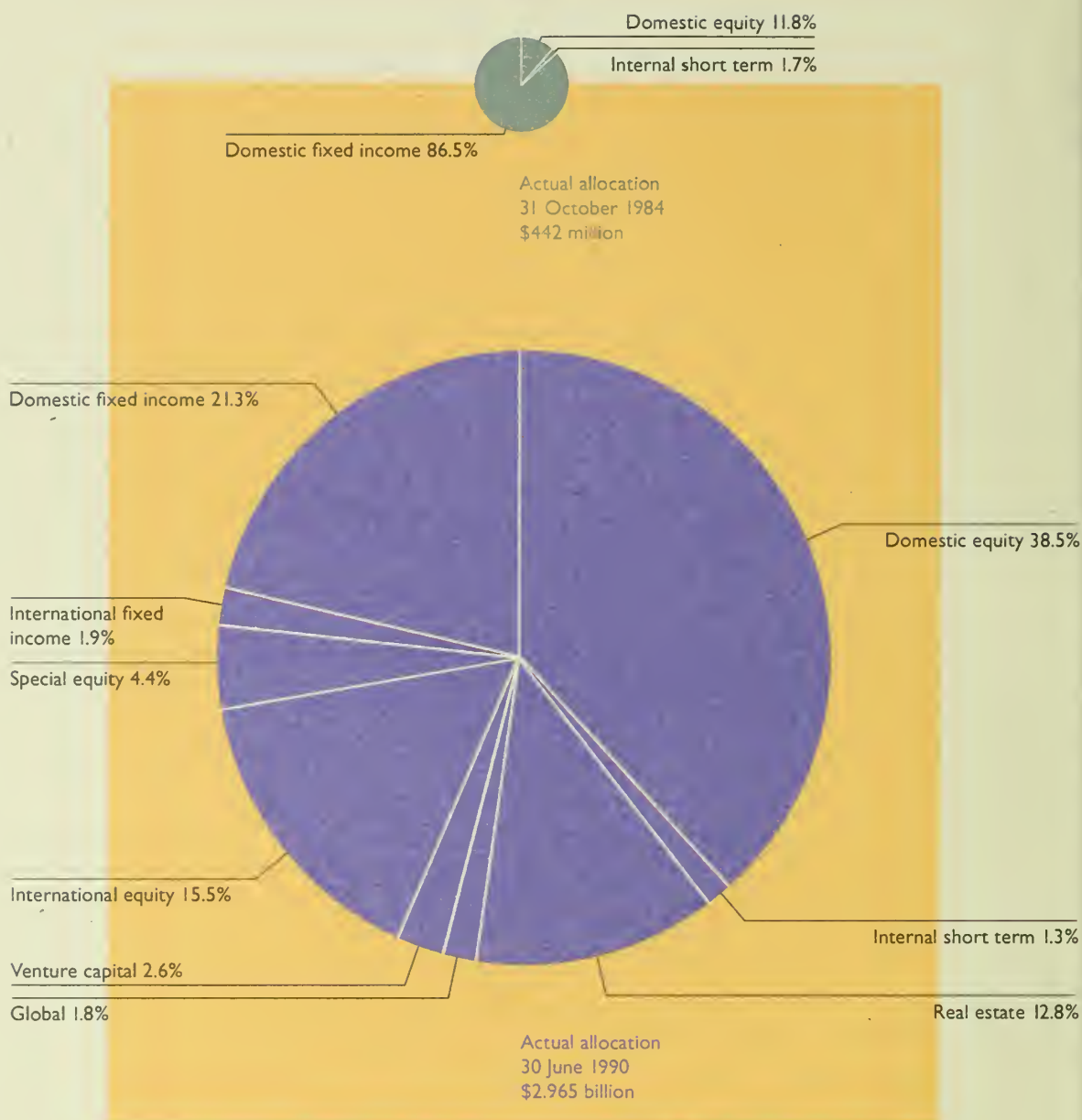
At the outset, PRIM had only one participating system, the Town of Weymouth, and initial funding in the amount of \$433 million in reserve funds transferred from the State Treasury. The Board and staff, working together, set out to establish both an agency and a pension fund which would be models for the industry and achieve substantial investment returns. We expected to do this through broad diversification within the traditional asset classes and substantial commitments to private markets on a worldwide basis, thus becoming the Commonwealth's first truly global pension fund.

These achievements and the resulting track record, accomplished in only six short years, are the result of the efforts of many dedicated professionals. At the risk of unintentionally overlooking some, I would like to extend my sincere thanks to the trustees of the PRIM Board; to our Fund advisor, Wilshire Associates, for a thoroughly professional job during all phases of the agency's growth; and to my colleagues on the staff, both past and present, who worked with me to create form and substance from the concepts and vision contained in the statute.

Finally, I would like to thank all of you for your support, confidence, and especially for the opportunity to make a positive contribution to the financial security of the employees of the Commonwealth, its cities, towns and counties.



Paul F. Quirk
Executive Director
December 31, 1990



**Asset allocation
strategy: 1984-90.**

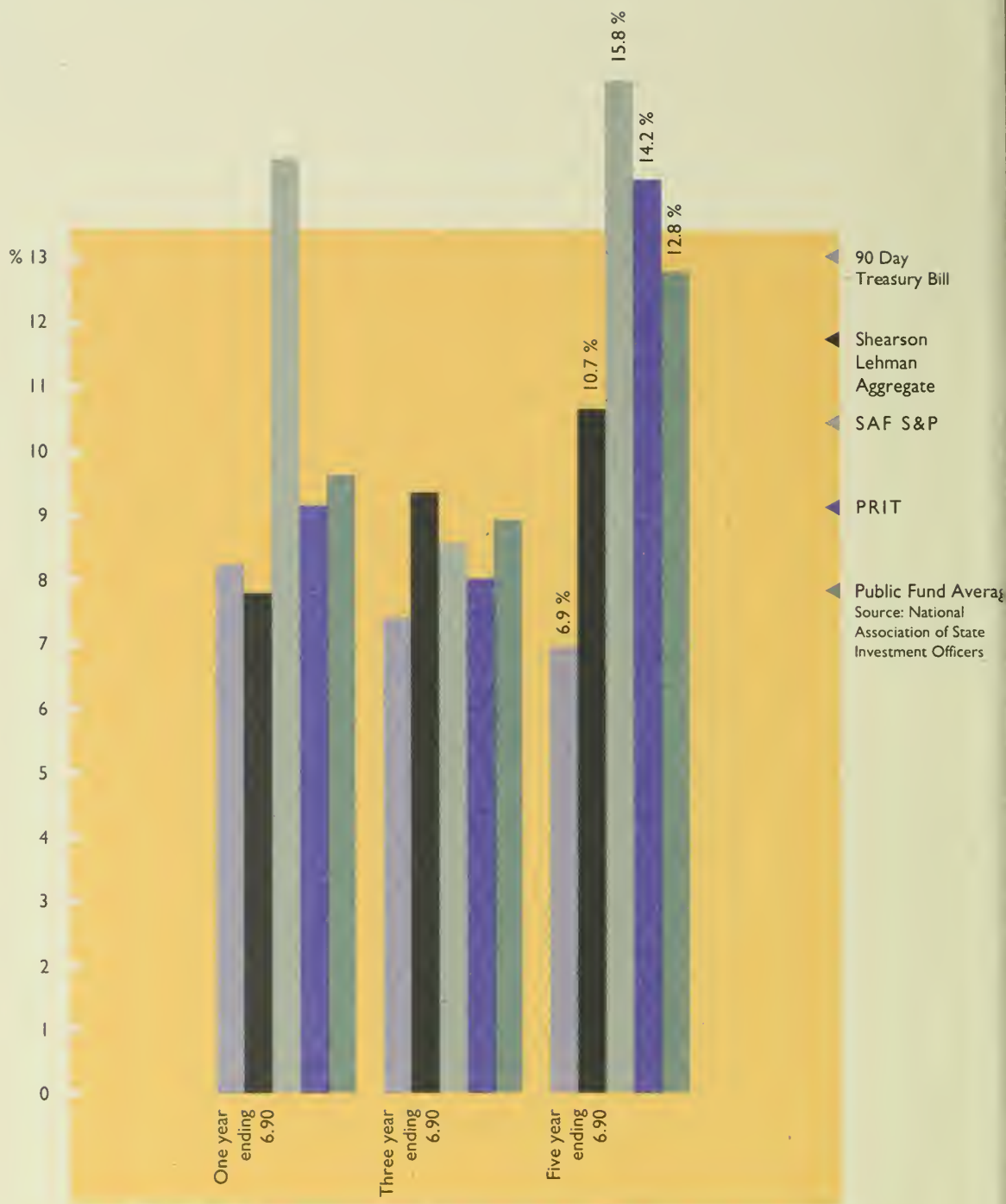
As the PRIT Fund has grown in size, the ability to diversify among an array of investment classes has created opportunities not available to smaller investors.



A long term outlook

Consistent positive long term investment performance is the key criterion for judging the success of a pension fund. The value of short term performance in a given month, quarter or year, is insignificant in comparison to consistent long term performance. The Pension Reserves Investment Trust (PRIT) Fund's performance objective has been to achieve the highest possible long term return within tolerable levels of risk. The Pension Reserves Investment Management (PRIM) Board's strategy for achieving this objective is to invest in a broadly diversified portfolio.

The success of that asset allocation strategy has been proven by the performance of the Fund as measured on both a local and a national level. According to a performance report released by the Massachusetts Public Employee Retirement Administration (PERA), the PRIT Fund had an annualized rate of return of 15.25% for the five-year period ending December 31, 1989, placing it second in investment performance among the 107 public retirement systems in the Commonwealth. The Weymouth Contributory Retirement System, a full participant in PRIT since the Fund's inception, had an annualized rate of return of 16.29% for the five year period, making it the number one system.



Comparative performance over five years.

For the five year

period ending 30 June
1990, the PRIT Fund

has an annualized
return of 14.2%,
placing it in the top
decile of public funds
nationally.

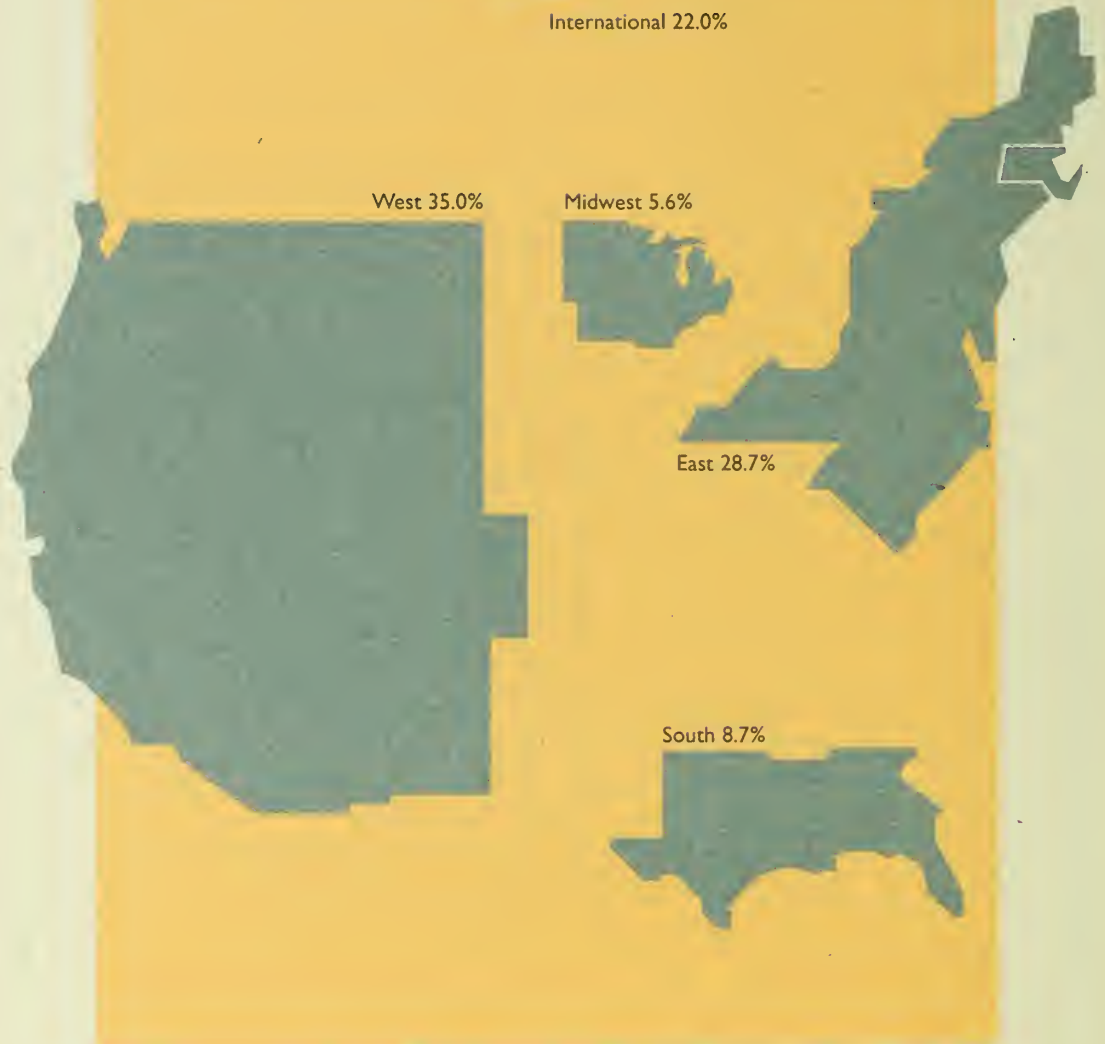


**A long term
outlook , continued**

PRIT's performance can also be favorably compared to other public funds and to major market indices. For the five year period ending June 30, 1990, the PRIT Fund outperformed two of three major market indices and ranked in the top decile of a national public fund universe. Currently, PRIT Fund assets total \$3 billion.

PRIM's investment strategy was accomplished in two phases. After much quantitative modelling, an asset allocation strategy was developed, which would provide for broad diversification across the traditional asset classes. These assets (domestic and international equities and fixed income vehicles) represent 80% of the total Fund and constitute the core portfolio around which higher-return private market investments are arrayed.

The second phase of PRIM's long term strategy is best reflected in its ongoing commitment to private markets—real estate, venture capital, and special equity investments. These investments, which typically do not provide substantial returns during their early years, will enhance the portfolio's overall performance as they begin to mature. PRIM has invested 20% of its total portfolio in these markets and expects to maintain this ratio as the portfolio grows.



Real estate strategies.

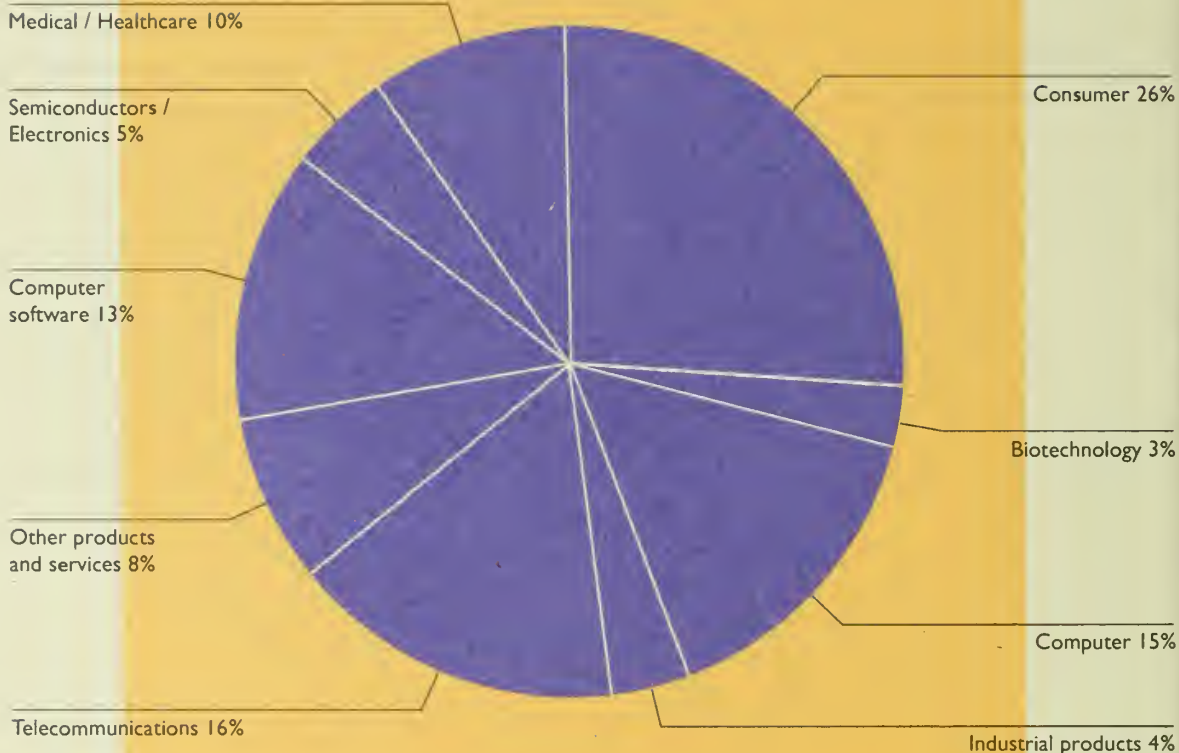
Geographic diversification, as well as a mix of properties which include commercial, residential and industrial spaces, protects PRIT's real estate portfolio and creates opportunities in diverse markets.



Real estate

Domestic and international real estate portfolios total \$379 million or 13% of the PRIT Fund. These assets are invested on both a separate account and pooled fund basis and are diversified both geographically and by property type. Geographic diversity provides a measure of protection against downturns in a particular local market or region while the mix of property types in the portfolio protects against poor performance in a particular market sector, such as office, retail, etc.

Real estate is an appropriate investment vehicle for PRIT and for other institutional investors. Many of the same advantages that exist for an individual investing in real estate hold true for large investors; real estate provides a hedge against inflation, has a low correlation with equity and fixed income markets, and is a tangible asset which can be readily monitored and controlled over time.



**Venture capital
strategies.**

A carefully executed
venture capital pro-
gram provides diver-
sification to the entire
PRIT portfolio and can,
in the long term, pro-
vide returns in excess
of those earned by
traditional assets.

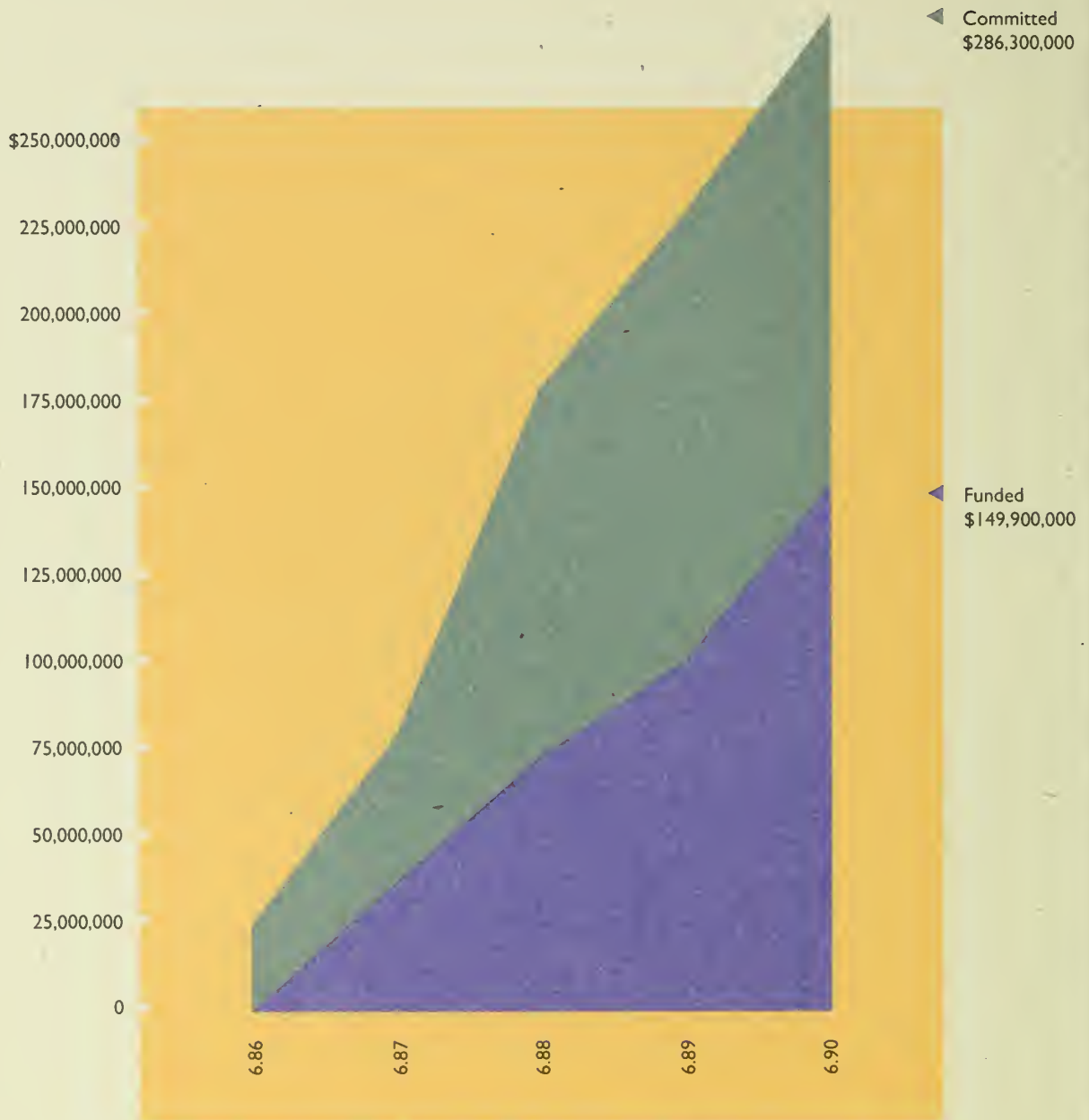


Venture capital

As of June 30, PRIM's commitment to venture capital totalled \$112 million invested in 14 venture capital funds. Additionally, \$18 million is invested in 65 Massachusetts companies, primarily through PRIM's separate account venture capital portfolio. PRIM's venture capital portfolio is diversified by industry, geography, and stage of development.

PRIM began structuring a venture capital portfolio in 1986 and it has grown from 6 commitments totalling \$25.5 million to 15 commitments totalling \$130 million. Given that it takes five to seven years to build a venture-backed company, PRIM's initial investments are only now beginning to reach maturity and add significant value to the Fund.

Just as the diversification of the portfolio is important, so too is the necessity of investing over a full venture cycle rather than all at once. Thus, returns from these funds, which will mature over a period of years on a staggered basis, will not be greatly affected by particular market conditions at any single point in time.



Special equity strategies.

The development of the special equity portfolio is an ongoing process, designed to provide diversification among investments and to enhance the total portfolio return over time.

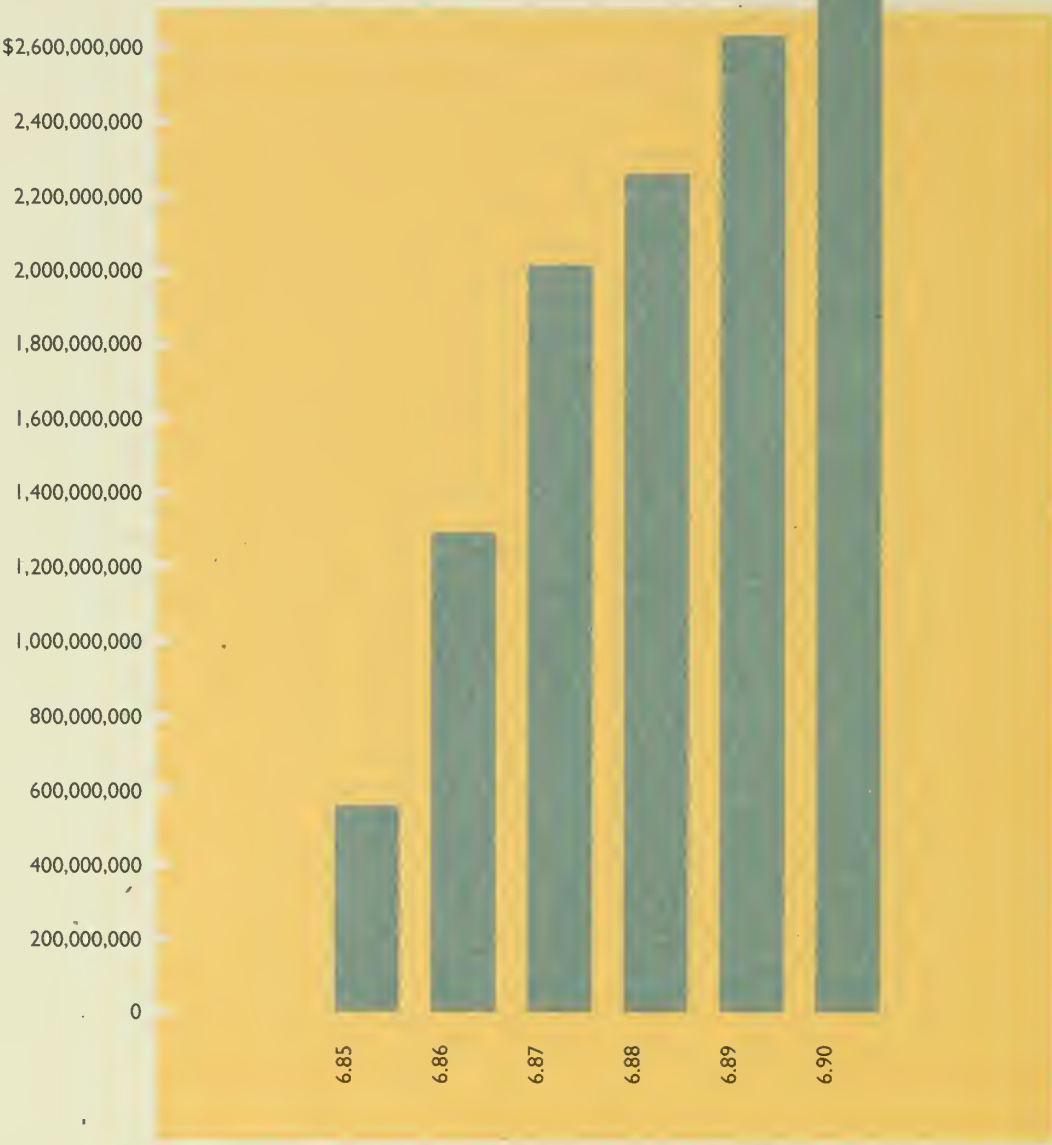


Special equity

The role of special equity is to provide PRIT's overall portfolio with opportunities for high returns and added diversification that will reduce the total risk of the portfolio. Currently, \$130 million, or 4.5% of the total portfolio, is invested in special equity. PRIM's special equity portfolio includes limited partnerships investing in leveraged buyouts, turnaround/restructuring opportunities, and oil and gas exploration and development.

Special equity partnerships are expected to provide investment returns exceeding those of publicly traded securities over a market cycle. Returns on these investments will be comparable to those of venture capital limited partnerships. Additionally, like venture capital, special equity returns are not closely correlated to traditional investments such as publicly traded equities, and will mature over a period of years depending on the date of the initial investment, partnership terms, and market conditions.

◀ \$2,964,897,094



Growth in assets.

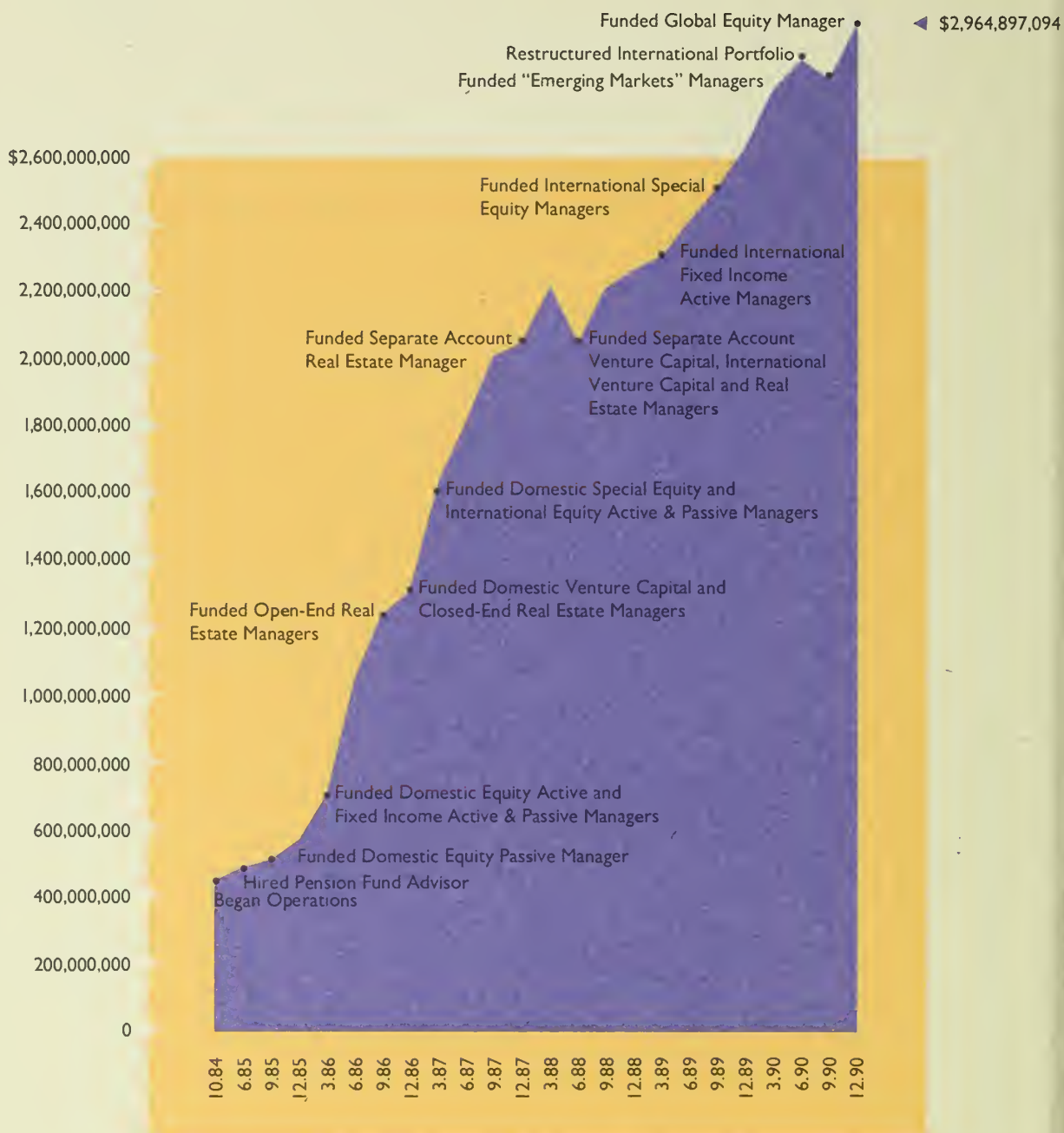
State contributions,
greater local participation, and investment earnings have produced a sevenfold increase in the Fund's size in the five and a half years since inception.



Corporate governance

Institutional shareholder activism has been on the rise for the past five years and PRIM has been in the vanguard of that movement. In 1985, the Council of Institutional Investors was formed with PRIM as a member. Today the total value of public pension assets managed by Council members is approaching \$300 billion.

By virtue of their size, large pension funds, public and private, must maintain a presence in equity markets. This is frequently accomplished passively using index funds which replicate the entire equity market. Consequently, pension funds as fiduciaries, must take an active interest in the affairs of the companies they own. The PRIM Board has adopted a comprehensive corporate governance policy designed to ensure that all shares are voted in a manner which will both preserve and enhance shareholder value over the long term.



PRIM milestones.

Access to, and a willingness to invest in a wide range of asset classes will help to reduce, and ultimately eliminate the Commonwealth's unfunded pension liabilities.



In conclusion

The development of the PRIM Fund portfolio has been an evolutionary process. Initially, diversification among traditional asset classes was undertaken in order to provide a solid core designed to match the performance of the underlying markets.

After completing this initial structuring, the Board and staff began seeking investments in non-traditional asset classes, generally considered to provide higher rates of return over the long term investment horizon.

These private market investments which enhance the core portfolio are only now beginning to mature. They are expected to provide significant returns to the Fund in the second half of PRIM's first decade.

In the face of the everchanging nature of capital markets, PRIM's underlying mission, to enhance investment return and reduce unfunded liabilities, remains constant and continues to be fulfilled.

Investment managers and advisors

Domestic and international equity managers

Acadian Asset Management, Boston
 Alliance Capital Management Corporation, New York City
 Baring International Investment, Ltd., London
 Bear Stearns & Co., New York City
 Capital Guardian, Los Angeles
 Daiwa International Capital Management, New York City
 Emerging Markets Management, Washington, DC
 G.E. Investment Corp., Stamford
 H.D. International Ltd., London
 Lazard Freres Asset Management, New York City
 Nomura Capital Management, New York City
 Oechsle International Advisors, Boston
 Panagora, Boston
 Scudder, Stevens & Clark, New York City
 State Street Bank & Trust Company, Boston
 TCW Asset Management, Los Angeles
 Trinity Investment Management Corp., Boston
 United States Trust Company, Boston

Domestic and international fixed income managers

Baring International Asset Management, Ltd., London
 Equitable Capital Management Corp., New York City
 Fidelity Management, Boston
 W.R. Huff Asset Management, Morristown
 Lehman Ark., New York City
 One Federal Asset Management, Boston
 The Putnam Advisory Co., Inc., Boston
 N.M. Rothschild International Asset Management, London

Domestic and international real estate managers

Aldrich, Eastman & Waltch, Boston
 Bank of Boston, Boston
 Boston Financial Group, Boston
 Copley Real Estate Advisors Inc., Boston
 Heitman Advisory Corp., Chicago
 Invesco Realty Advisors, Dallas
 JMB Institutional Realty, Chicago
 John Hancock Mutual Life Insurance Co., Boston
 Massachusetts Mutual Life Insurance Co., Springfield
 TCW Realty Advisors, Los Angeles

Domestic and international venture capital and special equity managers

Advent International Corp., Boston
 Advent Management Opportunity, London
 Alan Patricof Associates Ltd., New York City
 Boston Ventures, Boston
 Commonwealth Bioventures, Worcester
 Davis Venture Partners, Tulsa
 Forstmann Little & Company, New York City
 Golder, Thoma and Cressey, Chicago
 John Hancock Venture Capital Management, Boston
 Joseph Littlejohn & Levy, New York City
 Invexco Inc., Houston
 Kohlberg, Kravis & Roberts and Co., New York City
 MMG Patricof, London
 Morgan Holland Partners, Boston
 Schroder UK Buyout Fund, London
 Southern California Ventures, Englewood
 Smith Offshore Exploration Co., Houston
 TA Associates, Boston
 Thomas H. Lee Acquisitions, Boston
 Venture Capital Fund of New England, Boston
 Vista Partners, New Canaan

Custodian

State Street Bank and Trust Company, North Quincy

Fund advisor

Wilshire Associates, Santa Monica

Independent public accountants

Arthur Andersen & Co., Boston

Legal counsel

Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, P.C., Dr., Boston

Pension Reserves Investment Trust Fund
Financial statements as of June 30, 1990 and 1989



**Report of
Independent Public
Accountants**

To the Pension Reserves Investment Management Board and Member Systems
of the Pension Reserves Investment Trust Fund:

We have audited the accompanying balance sheets of the Pension Reserves Investment Trust Fund (a statutorily created entity established by the Commonwealth of Massachusetts with the enactment of Chapter 661 of the Acts of 1983, as amended by Chapter 697 of the Acts of 1987) as of June 30, 1990 and 1989, and the related statements of operations and changes in net assets for the years then ended and the schedule of investments as of June 30, 1990. These financial statements and schedule are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of June 30, 1990 and 1989, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and schedule referred to above present fairly, in all material respects, the financial position of the Pension Reserves Investment Trust Fund as of June 30, 1990 and 1989, and the results of its operations and the changes in its net assets for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, independent market values of real estate and alternative investments are not readily available. Real estate and alternative investments are included in the balance sheets at estimated market values determined by the real estate and alternative investment managers.

Arthur Andersen & Co.

August 14, 1990.

Balance sheet

June 30

Assets

Investments at market value (cost of \$2,727,172,619 and \$2,399,861,327 at June 30, 1990 and 1989, respectively. (See *Schedule of investments*) (Note 2):

Equities

U.S. Government agency and Treasury obligations

Fixed income investments

Money market investments

Real estate

Alternative investments

International investments

Total investments

Cash

Dividend and interest receivable (Note 2)

Receivable for investments sold

Other assets

Total assets

Liabilities

Management fees payable (Note 3)

Payable for investments purchased

Other liabilities

Current portion of notes payable (Note 4)

Long-term notes payable (Note 4)

Total liabilities

Commitments and contingencies

(Note 6)

Net assets

Fund units (2,372,443,606 and 2,133,176,935 *Capital Fund* units outstanding at June 30, 1990 and 1989, respectively, and 7,484,669 and 5,579,245 *Cash Fund* units outstanding at June 30, 1990 and 1989, respectively) (Notes 1, 2)

Net unrealized gain on investments

Total net assets (equivalent to \$1.24 and \$1.23 per *Capital Fund* unit based on 2,372,443,606 and 2,133,176,935 units outstanding at June 30, 1990 and 1989, respectively, and \$1.00 per *Cash Fund* unit based on 7,484,669 and 5,579,245 units outstanding at June 30, 1990 and 1989, respectively)

The accompanying notes are an integral part of these financial statements.



		1990	1989
Cash Fund	Capital Fund	Total	Total
\$ —	\$1,133,374,518	\$1,133,374,518	\$ 992,310,948
—	429,974,441	429,974,441	481,074,969
—	181,851,285	181,851,285	251,077,041
7,563,307	111,556,891	119,120,198	104,561,389
—	408,943,652	408,943,652	352,395,271
—	205,017,527	205,017,527	128,013,602
—	511,342,333	511,342,333	333,521,240
\$7,563,307	\$2,982,060,647	\$2,989,623,954	\$2,642,954,460
—	15,328	15,328	10,527
—	22,098,543	22,098,543	22,086,751
43,562	26,257,978	26,301,540	18,237,275
—	9,285	9,285	16,410
\$7,606,869	\$3,030,441,781	\$3,038,048,650	\$2,683,305,423

\$ —	\$ 2,120,383	\$ 2,120,383	\$ 1,333,464
122,200	38,436,549	38,558,749	30,175,838
—	2,134,950	2,134,950	—
—	211,195	211,195	194,861
—	30,126,428	30,126,428	15,364,754
\$ 122,200	\$ 73,029,505	\$ 73,151,705	\$ 47,068,917

\$7,484,669	\$2,694,960,941	\$2,702,445,610	\$2,393,143,373
—	262,451,335	262,451,335	243,093,133

\$7,484,669	\$2,957,412,276	\$2,964,896,945	\$2,636,236,506
-------------	-----------------	-----------------	-----------------

Statements of operations

For the years ended June 30

Investment income	Interest
	Dividends
	Real estate income
	Alternative investment income
	Security lending income (Note 7)
	Total investment income
	Less:
	Management fees (Note 3)
	Interest expense
	Other
	Net investment income
Realized and unrealized gain on investments	Realized gain on investments
	Increase in unrealized gain on investments
	Net gain on investments
Increase in net assets resulting from operations	Total

The accompanying notes are an integral part of these financial statements.



		1990	1989
Cash Fund	Capital Fund	Total	Total
\$ 540,528	\$ 79,074,702	\$ 79,615,230	\$ 76,675,478
—	39,253,026	39,253,026	38,765,492
—	26,572,972	26,572,972	26,733,942
—	6,503,315	6,503,315	3,859,224
—	185,966	185,966	281,359
\$ 540,528	\$151,589,981	\$152,130,509	\$146,315,495
—	16,171,343	16,171,343	12,631,628
—	2,750,584	2,750,584	1,561,298
—	1,778,065	1,778,065	627,172
\$ 540,528	\$130,889,989	\$131,430,517	\$131,495,397
\$ —	\$ 67,065,604	\$ 67,065,604	\$ 47,091,097
—	19,358,202	19,358,202	137,255,154
\$ —	\$ 86,423,806	\$ 86,423,806	\$184,346,251
\$ 540,528	\$217,313,795	\$217,854,323	\$315,841,648

Statements of changes in net assets

For the years ended June 30

From operations	Net investment income
	Realized gain on investments
	Increase in unrealized gain on investments
	Increase in net assets resulting from operations
Distributions to member systems from	Net investment income
	Realized gain on investments
	Total distributions to member systems
From fund unit transactions	Proceeds from original unit sales
	Proceeds from subsequent unit sales
	Net asset value of units issued to member systems in reinvestment of net investment income and realized gain
	Cost of units repurchased
	Interfund transfers
	Increase in net assets derived from fund unit transactions
Net assets	Total increase in net assets
	Beginning of period
	End of period

The accompanying notes are an integral part of these financial statements.



1990			1989
Cash Fund	Capital Fund	Total	Total
\$ 540,528	\$ 130,889,989	\$ 131,430,517	\$ 131,495,397
—	67,065,604	67,065,604	47,091,097
—	19,358,202	19,358,202	137,255,154
<u>\$ 540,528</u>	<u>\$ 217,313,795</u>	<u>\$ 217,854,323</u>	<u>\$ 315,841,648</u>
\$ (540,528)	\$ (130,889,989)	\$ (131,430,517)	\$ (131,495,397)
—	(67,065,604)	(67,065,604)	(47,091,097)
<u>\$ (540,528)</u>	<u>\$ (197,955,593)</u>	<u>\$ (198,496,121)</u>	<u>\$ (178,586,494)</u>
\$ 250,000	\$ 9,244,432	\$ 9,494,432	\$ 1,117,377
72,270,339	69,680,931	141,951,270	101,001,414
540,528	197,955,593	198,496,121	178,586,494
(40,409,550)	(230,036)	(40,639,586)	(41,801,637)
(30,745,893)	30,745,893	—	—
<u>\$ 1,905,424</u>	<u>\$ 307,396,813</u>	<u>\$ 309,302,237</u>	<u>\$ 238,903,648</u>
\$ 1,905,424	\$ 326,755,015	\$ 328,660,439	\$ 376,158,802
5,579,245	2,630,657,261	2,636,236,506	2,260,077,704
<u>\$ 7,484,669</u>	<u>\$2,957,412,276</u>	<u>\$2,964,896,945</u>	<u>\$2,636,236,506</u>

Pension Reserves Investment Trust Fund

Notes to financial statements

June 30, 1990

Note 1: Description of the Pension Reserves Investment Trust Fund

The Pension Reserves Investment Trust Fund (PRIT) was created in 1984 by the Commonwealth of Massachusetts through legislation (Chapter 66I of the Acts of 1983, as amended by the Acts of 1987) and is the investment portfolio for the assets of member state and local retirement systems. The Pension Reserves Investment Management Board (the Board) was created by the same legislation to manage PRIT. Operations of PRIT began October 1, 1984.

Systems joining PRIT have the option to be Participating or Purchasing Systems. Participating Systems must transfer all of their retirement system assets to PRIT. Purchasing Systems, along with the Participating Systems, share in the investment earnings of PRIT based on their proportionate share of net assets (see Note 2). During the year ended June 30, 1990, three systems entered as Purchasing Systems, and one system, which was a Purchasing System, became a Participating System. The total number of Participating and Purchasing Systems at June 30, 1990 are 17 and 14, respectively.

PRIT consists of two funds, the Capital Fund and the Cash Fund. The Capital Fund serves as the long-term asset portfolio. The portfolio asset allocation plan includes stocks, bonds, money market investments, international investments, real estate and other alternative investments. The Cash Fund consists of short-term investments which are used to meet the liquidity requirements of the various Participating and Purchasing Systems.

Note 2: Summary of significant accounting policies

The following is a summary of significant accounting policies followed by PRIT, which are in conformity with those generally accepted in the industry:

Valuation of investments Security transactions are recorded on the trade date of the securities purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a member system, the market value of the securities on the transfer date. The Capital Fund is valued at month-end, while the Cash Fund is valued daily.

Investments in bonds and U.S. Government agency and Treasury obligations are valued by an independent pricing service. In determining the price, the service reflects such factors as security prices, yields, maturities and ratings, supplemented by dealer quotations. Money market and other short-term investments, both domestic and international, are recorded using the amortized cost method, which approximates market value. Domestic and international investments in equity securities traded on national securities exchanges are valued at the last sale price or, if no sale, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter bid prices. Investments in real estate, venture capital and special equities, where the structure, risk profile and return potential differ from traditional equity and fixed income investments, are valued by investment managers at estimated market values as of June 30, 1990.



Note 2:
**Summary of
significant
accounting policies,**
continued

Dividend income is recorded on the ex dividend date and interest income is recorded when earned.

Gains and losses from sales of investments are calculated on the average cost method.

Fund units

Capital Fund: The number of units resulting from the initial transfer of a retirement system's assets to PRIT or from the subsequent sales or repurchases of units is calculated by dividing the market value of the assets involved by the unit price at the end of the month.

Net investment income and net realized gains are reinvested in units at the end of each month as follows:

- Net investment income and net realized gains for the month are allocated between the systems based on their proportionate share of the net assets at the beginning of the month.
- The allocated portions are then divided by the beginning-of-the-month unit price, adjusted for the change in unrealized appreciation (depreciation) of investments during the current month, to determine each system's incremental number of units.
- If the Capital Fund incurs net realized losses, the losses are allocated between the systems using the same method as for gains, thereby reducing the number of units held by each system.

Cash Fund: Sales and repurchases of units by the systems are recorded in the Cash Fund on the trade date at the fund's daily price of \$1.00 per unit. Net investment income is allocated daily between the systems based on their proportionate share of net assets and is reinvested in units at month-end.

Note 3:
Management fees

In accordance with the Board's Operating Trust, all expenses incurred by the Board in managing PRIT are charged to PRIT in the form of management fees. These fees primarily consist of investment manager, advisory and professional fees, salaries and other operating expenses of the Board.

Investment managers Investment management fees are paid to all of PRIT's fully discretionary external asset managers pursuant to written contractual arrangements. The fees for equity and fixed income managers are calculated and paid on a quarterly basis based upon the net asset value of each manager's portfolio. In some cases, managers are paid on a "performance fee" basis, characterized by a low base fee, with an incremental fee paid on a quarterly basis in the event that a manager outperforms the agreed-upon contractual benchmark.

Note 3:
Management fees
 continued

Real estate management fees are structured differently. The "open" and "closed-end" funds charge fees that are not generally negotiable, based on net asset value. The separate account relationships which PRIT has negotiated are typified by fees which are lower than normal during the hold period of the investment, with a performance fee component paid when the original investment is terminated or otherwise restructured.

Alternative investment managers charge fees during the investment hold period based on total assets committed. Fees are payable commencing on the date that the partnership closes.

Investment management fees totaled \$12,478,000 and \$9,259,000 for the years ended June 30, 1990 and 1989, respectively.

Investment advisor Wilshire Associates (Wilshire) serves as the Board's pension advisor. Wilshire provides the Board with comprehensive pension investment advisory services, including recommendations on asset allocation, development of objectives, policies and guidelines for the Board and for the individual investment managers selected by the Board, assistance in the screening, interviewing and selection of investment managers, and measurement of external and internal performance of PRIT and the individual investment managers. Wilshire received fees of approximately \$232,000 and \$249,000 for the years ended June 30, 1990 and 1989, respectively.

Investment custodian State Street Bank and Trust Company (State Street) is the PRIT investment custodian and recordkeeper. State Street records all daily transactions for PRIT, including investment sales and purchases, investment income, expenses incurred by PRIT and all fund unit activity for the PRIT member systems. State Street also provides portfolio performance analysis. State Street receives an annual asset fee based on the market value of the PRIT fund.

State Street's compensation totaled approximately \$1,661,000 and \$1,188,000 for the years ended June 30, 1990 and 1989, respectively.

Note 4:
Notes payable

Notes payable, consisting of variable and fixed rate notes, are summarized as follows:

	1990	1989
Mortgage secured by interests in certain partnerships owned by the Fund, bearing interest at a fixed rate of 10.00%	\$15,337,623	\$15,559,615
Note secured by interests in certain partnerships owned by the Fund, bearing interest at a rate of LIBOR plus 0.65%. The weighted average interest rate was 8.10% for the year ended June 30, 1990	15,000,000	—
Total notes payable	\$30,337,623	\$15,559,615
Current portion of notes payable	211,195	194,861
Long-term notes payable	\$30,126,428	\$15,364,754



Note 4:
Notes payable
continued

Principal payments required under these notes are as follows:

1991	\$ 211,195
1992	228,837
1993	257,272
1994	15,284,212
1995	313,973
Thereafter	14,042,134
	<u>\$30,337,623</u>

Note 5:
Purchases and sales
of investments

During the year ended June 30, 1990, the cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were \$7,080,324,995 and \$6,573,217,026, respectively. During the year ended June 30, 1989, the cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were \$2,937,368,050 and \$2,825,909,100, respectively.

Note 6:
Commitments and
contingencies

As of June 30, 1990, PRIT had outstanding commitments to invest \$123 million in real estate, \$150 million in alternative investments and \$77 million in domestic equity investments.

Note 7:
Securities lending
program

In fiscal 1987, PRIT joined State Street's security lending program. Under this program, PRIT receives a fee for allowing brokerage firms to borrow certain of its securities for a predetermined period of time, securing such loans with cash collateral equaling 102% of the market value of the securities borrowed. All collateral is held by State Street. At June 30, 1990, the market value of securities on loan was approximately \$29 million for equities and \$36 million for fixed income investments and U.S. Government agency and Treasury obligations. These securities are included in investments at market value as of June 30, 1990 in the accompanying balance sheet.

Note 8:
Presentation

Certain prior year balances have been reclassified to be consistent with the current year presentation.

Pension Reserves Investment Trust Fund

Schedule of investments*

June 30, 1990

Domestic investments			
Shares		Cost	Market value
Equities			
2,427,858	Basic industries	\$ 73,130,293	\$ 76,014,894
1,978,288	Capital goods	59,757,574	79,584,213
149,000	Conglomerates	7,052,852	7,783,750
3,952,291	Consumer basics	111,478,007	178,572,653
1,490,146	Consumer durable goods	41,408,172	42,533,787
2,893,195	Consumer nondurable goods	77,685,743	101,892,135
1,361,741	Consumer services	33,851,783	40,812,818
2,100,424	Energy	70,418,218	95,253,839
11,567,658	Finance	149,571,570	156,566,163
1,455,359	General business	35,486,929	43,471,600
450,597	Shelter	9,857,049	11,129,578
4,555,641	Technology	131,166,176	133,041,947
834,050	Transportation	27,731,965	28,335,431
4,091,613	Utilities	100,796,278	135,678,605
1,075,698	Miscellaneous	2,503,270	2,703,105
	Total equities	<u>\$ 931,895,879</u>	<u>\$1,133,374,518</u>
Principal amount		Cost	Market value
Fixed income			
<i>Corporate:</i>			
\$ 36,408,968	Finance and banking with rates ranging from 5.00% to 15.625% and maturities ranging from 1990 to 2020	\$ 35,486,118	\$ 34,001,388
92,920,001	Industrials with variable rates and rates ranging from 4.625% to 17.75%, and maturities ranging from 1990 to 2019	76,120,893	74,193,474
32,694,000	Utilities with fixed rates ranging from 3.20% to 11.75% and maturities ranging from 1990 to 2019	28,344,036	30,258,553
3,563,000	Transportation with rates ranging from 4.50% to 15.50% and maturities ranging from 1992 to 2006	3,335,314	3,394,113
33,439,862	Miscellaneous with rates ranging from 6.00% to 15.50% and maturities from 1990 to 2013	32,247,917	28,619,251
	Total corporate	<u>\$ 175,534,278</u>	<u>\$ 170,466,779</u>



Principal amount		Cost	Market value
Fixed income cont'd			
\$ 2,295,000	Utilities with rates ranging from 5.625% to 10.00% and maturities ranging from 1991 to 2000	\$ 2,120,234	\$ 2,246,143
7,830,157	Municipals with rates ranging from 4.375% to 13.00% and maturity ranging from 1991 to 2008	7,739,572	7,642,358
450,027	Insurance Contracts with rates ranging from 10.70% to 18.02% and maturities in 1993	450,027	450,027
1,045,978	Guaranteed investment contracts with various rates and maturities	1,045,978	1,045,978
Total fixed income		<u>\$ 186,890,089</u>	<u>\$ 181,851,285</u>

Principal amount		Cost	Market value
U.S. Government agency and Treasury obligations			
\$ 3,540,000	Federal Farm Credit Banks with rates ranging from 10.40% to 12.50% and maturities ranging from 1990 to 1994	\$ 3,614,879	\$ 3,780,367
4,500,000	Federal Home Loan Banks with rates ranging from 11.45% to 13.70% and maturities ranging from 1990 to 1993	4,390,750	4,743,006
21,116,830	Federal Home Loan Pools with rates ranging from 7.00% to 8.75% and maturities ranging from 2001 to 2016	20,047,371	19,968,137
19,093,481	Federal Home Loan Mortgage Corporation with rates ranging from 8.50% to 9.00% and maturities ranging from 1999 to 2020	18,693,827	18,749,982
22,113,780	Federal National Mortgage Association with rates ranging from 8.00% to 12.00% and maturities ranging from 1992 to 2017	16,347,131	16,327,759

Schedule of investments,* continued

Principal amount		Cost	Market value
U.S. Government agency and Treasury obligations, cont'd			
\$ 7,842,843	Federal National Mortgage Association Pool with rates ranging from 6.25% to 9.00% and maturities ranging from 2003 to 2019	\$ 7,303,241	\$ 7,052,706
51,295,389	Government National Mortgage Association Pool with rates ranging from 8.00% to 16.00% and maturities ranging from 2001 to 2020	49,862,891	50,054,150
11,742,703	Other marketable mortgage obligations with rates ranging from 9.70% to 15.25% and maturities ranging from 2009 to 2013	11,710,843	11,815,480
66,874	Small Business Administration mortgage obligations with various rates and maturities	66,874	66,874
10,600,000	Resolution Funding Corp. with variable rates and maturities	3,546,150	3,714,560
74,910,000	United States Treasury Bonds with rates ranging from 7.25% to 12.75% and maturities ranging from 1995 to 2017	81,219,561	85,452,482
2,560,000	Other United States Treasuries with variable rates and maturities	2,565,442	2,559,606
\$287,600,000	United States Treasury Notes with rates ranging from 7.25% to 12.75% and maturities ranging from 1994 to 2020	\$ 190,326,459	\$ 189,054,023
7,000,000	SHIPCO with a rate of 8.11% and a maturity of 2002	6,674,810	6,707,190
4,000,000	Tennessee Valley Authority with a rate of 8.375% and a maturity of 1999	3,987,640	3,851,240
6,497,310	Other collateralized mortgage obligations with rates ranging from 8.60% to 9.50% and maturities ranging from 2012 to 2020	6,087,394	6,076,874
	Total U.S. Government agency and Treasury obligations	\$ 426,445,263	\$ 429,974,444



	Cost	Market value
Money market		
State Street Short-term Investment Fund	\$ 109,032,000	\$ 109,032,000
Certificates of Deposit	6,616,455	6,616,455
Massachusetts Municipal Depository Trust	3,471,743	3,471,743
Total money market	\$ 119,120,198	\$ 119,120,198
Real estate		
Retail	\$ 100,836,189	\$ 98,146,476
Industrial	50,418,095	49,073,238
Office	88,231,665	85,878,167
Residential	42,015,079	40,894,365
Land	71,425,634	69,520,421
Other	67,224,126	65,430,985
Total real estate	\$ 420,150,788	\$ 408,943,652
Venture capital and special equity		
Equity securities	\$ 58,164,924	\$ 63,987,883
Debt securities	92,800,348	100,465,052
Cash, cash equivalents and U.S. Treasury obligations	22,964,792	24,861,534
Limited partnership interests	14,305,935	14,468,597
Massachusetts Technology Development Corporation	1,350,037	1,234,461
Total venture capital and special equity	\$ 189,586,036	\$ 205,017,527
International investments		
Units	Cost	Market value
Equities		
4,706,267	\$ 26,079,239	\$ 28,807,381
3,505,861	26,951,115	33,822,038
227,866	1,509,271	1,870,958
3,790,959	12,856,521	14,248,905
3,616,678	35,999,895	43,959,695
1,973,921	17,704,872	20,197,283
3,692,924	25,282,107	28,849,673
	goods	

Schedule of investments,* continued

Units		Cost	Market value
International investments, cont'd			
2,314,384	Consumer services	\$ 9,558,990	\$ 10,200,639
2,528,698	Energy	11,509,947	14,150,741
8,227,115	Finance	64,519,591	66,969,431
6,861,417	General business	25,527,581	28,692,310
2,265,447	Shelter	20,733,063	26,884,510
1,651,414	Technology	17,457,117	21,074,039
857,515	Transportation	6,325,734	6,851,448
4,775,226	Utilities	19,657,815	24,369,229
8,220,294	Miscellaneous	41,928,685	51,231,384
	Total equities	\$ 363,601,543	\$ 422,179,664
Foreign government Treasury obligations			
	Government and supranational with rates ranging from 5.00% to 14.625% and maturities from 1995 to 2016	\$ 20,701,597	\$ 21,158,743
	Foreign Government Treasury notes with rates ranging from 4.80% to 11.00% and maturities ranging from 1996 to 2014	23,037,543	23,400,322
	Total foreign government treasury obligations	\$ 43,739,140	\$ 44,559,065
Fixed income			
	Corporate with rates ranging from 8.25% to 14.62% and maturities ranging from 1991 to 2016	\$ 4,276,674	\$ 4,615,820
	Money market		
	Various foreign cash and cash equivalents	\$ 41,467,009	\$ 39,987,784
	Total fixed income	\$ 45,743,683	\$ 44,603,604
	Total investments	\$2,727,172,619	\$2,989,623,954

* See Note 2

Note: A detailed portfolio listing is available for review at the Pension Reserves Investment Management Board's office.
The accompanying notes are an integral part of these financial statements.

Members of the PRIM Board

June 30, 1990

The members of the Pension Reserves Investment Management Board consist of designated representatives of the Governor and the State Treasurer, as well as elected and appointed representatives of state, county and municipal employees. By law, one member must be a private citizen experienced in the field of investment or financial management, one must be a person who is not an employee or officer of the Commonwealth, two must be representatives of employee organizations, two must be elected by state employees and teachers, and one must be the Commissioner of Public Employee Retirement Administration. Members serve without compensation.

John J. Gallahue, Chairman, a designee of the State Treasurer, is the Executive Director of the MBTA Retirement Fund.

Joseph Bonavita, appointed by the State Treasurer, is Executive Director of the American Federation of State, County and Municipal Employees, Council 93, AFL-CIO. Term expires 4/27/92.

Robert Brousseau, elected by the members of the State Teachers' Retirement System, is a teacher in the Wareham public schools. Term expires 7/20/93.

Arthur J. Gutierrez, appointed by the State Treasurer, is President of The Gutierrez Company, a real estate development firm, located in Burlington, Massachusetts. Term expires 6/5/93.

William Jones, appointed by the Governor, is the Executive Director of the Codman Square Housing Development Corporation. Term expires 2/1/92.

Paul M. Lestage, appointed by the Governor, is the Secretary/Treasurer of the Professional Firefighters of Massachusetts. Term expires 3/30/91.

John J. McGlynn, Vice Chairman, is the Commissioner of the Division of Public Employee Retirement Administration. Ex-officio member.

L. Edward Lashman, a designee of the Governor, is the Secretary of the Executive Office of Administration and Finance. Ex-officio member.

Ralph W. White, elected by the members of the State Retirement System, is President of the Retired State, County and Municipal Employees Association of Massachusetts. Term expires 7/20/93.

Pension Reserves Investment Management Board

The PRIM Board's offices are located at 200 State Street, Boston. The staff is comprised of professionals and support personnel with qualifications in the fields of finance, modern portfolio management, law, business administration, accounting, and retirement board administration. Each member of the senior staff is responsible for a component of the overall agency operation.

Pension Reserves Investment Management Board

**Boston Massachusetts
617 439-4600**

**Facsimile
617 439-6989**

Paul F. Quirk
Executive Director

Philip D. Kett
Chief Investment Officer

Elizabeth A. Quirk
Director of Finance

Daniel J. Sullivan
*Deputy Director/
General Counsel*

Design
Sametz Blackstone Associates, Boston
Printing
Reynolds-DeWalt Printing, New Bedford

© Copyright 1990 The PRIM Board

ASS. PR38.1: 991



INTERNET DOCUMENTS
COLLECTION

2007-04-1993

INTERNET DOCUMENTS
COLLECTION

PENSION RESERVES INVESTMENT TRUST FUND

Annual report for the year ended June 30, 1991



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE TREASURER
STATE HOUSE, BOSTON 02133

JOSEPH D. MALONE
TREASURER AND RECEIVER GENERAL

December 4, 1991

Dear Participants:

In mid-January, 1991, I assumed the duties and responsibilities of Treasurer and receiver General of the Commonwealth of Massachusetts. As part of the duties of that office, I serve as Chairman of the Pension Reserves Investment Management Board, which oversees the performance and operation of the Pension Reserves Investment Trust Fund. I consider this responsibility one of the most important of my office. As a result, I have assumed the active role as Chairman of PRIM and look forward to serving in that capacity during my tenure as Treasurer of the Commonwealth.

Upon assuming the Chairmanship in mid-January, I addressed several immediate issues facing PRIM at that time. Foremost was the need to fill the position of Executive Director and to task the Director with the responsibilities of reviewing the operation and recommending appropriate changes. I appointed a Selection Committee to review prospective candidates, and in May the Committee recommended and the Board approved the selection of Paul Doane, whose career provides a perfect blend of dedicated public service with legal and investment professionalism in the private sector.


Second was the need to upgrade the performance of the Fund. Nineteen-ninety was the first year that the PRIT Fund had not recorded a positive return for any calendar year. It was my desire in working with the Board, staff and Director to move decisively to insure maximum performance of the Fund within prudent investment guidelines. This process to both maximize the performance return of the Fund and appropriate reductions in operating costs is well underway.

Third was to improve trust between the beneficiaries and participants of the Fund and the agency and its management. I therefore directly committed to oversee the operation of this agency, a vital role of the office of the Treasurer on behalf of the pension beneficiaries in this state. In addition, the active participation of municipal and county systems within PRIT remains an important component. It is my hope that during my term as treasurer, with the assistance of the dedicated Board members and professional staff, we can attain a level of consistent performance that will insure the confidence of both state and municipal beneficiaries of PRIT and continue to experience growth in asset base.

During the past fiscal year, a long time PRIM Board Member, Paul Lestage, who represented the public safety unions of the Commonwealth, completed his years of service. We are very grateful for his dedication to the Commonwealth and specifically to his involvement and guidance in the operations of PRIT. Replacing Mr. Lestage was Mr. Daniel O'Neil, President of the Massachusetts Corrections Officers Union. We welcome Mr. O'Neil and look forward to his participation. We also welcome to the Board the participation of James B.G. Hearty, an assistant secretary of the office of Administration and Finance.

The fiscal year 1991 closed with the pending arrival of the new Director. I envision the year ahead as one of much opportunity. I look forward to working with our new team and particularly reach out to the participating and purchasing systems as well as the business and investment community at large to become further involved in the operation of our Fund. Although I have only had the privilege of serving as Treasurer for a matter of months, I have full appreciation for the important tasks that lie ahead in the performance of the duties of this office. I can assure you that every effort will be made to achieve the finest in performance of the PRIT Fund.

Sincerely,

A handwritten signature in cursive script, reading "Joseph D. Malone". The signature is written in dark ink and is positioned below the word "Sincerely,".

Pension Reserves Investment Management Board

**Financial Statements as of June 30, 1991 and 1990
Together With Auditors' Report**

**Report of
Independent Public
Accountants**

To the Pension Reserves Investment Management Board and Member Systems of the Pension Reserves Investment Trust Fund:

We have audited the accompanying balance sheets of the Pension Reserves Investment Trust Fund (a statutorily created entity established by the Commonwealth of Massachusetts with the enactment of Chapter 661 of the Acts of 1983, as amended by Chapter 697 of the Acts of 1987) as of June 30, 1991 and 1990, and the related statements of operations and changes in net assets for the years then ended and the schedule of investments as of June 30, 1991. These financial statements and schedule are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of June 30, 1991 and 1990, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and schedule referred to above present fairly, in all material respects, the financial position of the Pension Reserves Investment Trust Fund as of June 30, 1991 and 1990, and the results of its operations and the changes in its net assets for the years then ended in conformity with generally accepted accounting principles.

As explained in Note 2, the financial statements include real estate and alternative investments valued at \$543,082,206 (17.9% of net assets), whose values have been estimated by the Pension Reserve Investment Management Board, with input from real estate and alternative investment managers and other advisers, in the absence of readily ascertainable market values. We have reviewed the procedures used by the Directors in arriving at their estimate of value of such investments and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, the Board of Directors' estimate of values may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be material.

Arthur Andersen & Co.

November 20, 1991

Balance Sheets

June 30, 1991 and 1990

Assets:	Investments at market value (cost of \$2,970,136,075 and \$2,727,172,619 at June 30, 1991 and 1990, respectively, see Schedule of Investments) (Note 2)-
	Equities
	U.S. Government agency and Treasury obligations
	Fixed income investments
	Money market investments
	Real estate
	Alternative investments
	International investments
	Total investments
	Cash
	Dividend and interest receivable (Note 2)
	Receivable for investments sold
	Other assets
	Total assets
Liabilities	Management fees payable (Note 3)
	Payable for investments purchased
	Other liabilities
	Current portion of notes payable (Note 4)
	Long-term notes payable (Note 4)
	Total liabilities
Commitments and Contingencies	(Note 6)
Net Assets	Fund units (2,613,880,418 and 2,372,443,606 Capital Fund units outstanding at June 30, 1991 and 1990, respectively, and 5,442,328 and 7,484,669 Cash Fund units outstanding at June 30, 1991 and 1990, respectively) (Notes 1 and 2)
	Net unrealized gain on investments
	Total net assets (equivalent to \$1.16 and \$1.24 per Capital Fund unit based on 2,613,880,418 and 2,372,443,606 units outstanding at June 30, 1991 and 1990, respectively, and \$1.00 per Cash Fund unit based on 5,442,328 and 7,484,669 units outstanding at June 30, 1991 and 1990, respectively)

The accompanying notes are an integral part of these financial statements.

Cash Fund	Capital Fund	1991 Total	1990 Total
\$ —	\$1,214,880,886	\$1,214,880,886	\$1,133,374,518
—	394,058,361	394,058,361	429,974,441
—	264,653,884	264,653,884	181,851,285
5,475,082	55,949,879	61,424,961	119,120,198
—	295,523,535	295,523,535	408,943,652
—	247,558,671	247,558,671	205,017,527
—	559,300,176	559,300,176	511,342,333
<u>\$5,475,082</u>	<u>\$3,031,925,392</u>	<u>\$3,037,400,474</u>	<u>\$2,989,623,954</u>
212	12,342,935	12,343,147	15,328
—	21,029,985	21,029,985	22,098,543
26,827	19,254,067	19,280,894	26,301,540
—	64,171	64,171	9,285
<u>\$5,502,121</u>	<u>\$3,084,616,550</u>	<u>\$3,090,118,671</u>	<u>\$3,038,048,650</u>
\$ —	\$ 1,966,455	\$ 1,966,455	\$ 2,120,383
—	24,443,612	24,443,612	38,558,749
59,793	—	59,793	2,134,950
—	217,589	217,589	211,195
—	29,909,392	29,909,392	30,126,428
<u>\$ 59,793</u>	<u>\$ 56,537,048</u>	<u>\$ 56,596,841</u>	<u>\$ 73,151,705</u>
\$5,442,328	\$2,960,815,103	\$2,966,257,431	\$2,702,445,610
—	67,264,399	67,264,399	262,451,335
<u>\$5,442,328</u>	<u>\$3,028,079,502</u>	<u>\$3,033,521,830</u>	<u>\$2,964,896,945</u>

Statements of Operations

For the years ended June 30, 1991 and 1990

Investment Income:	Interest
	Dividends
	Real estate income
	Alternative investment income
	Security lending income (Note 7)
	Total investment income

Less-
Management fees (Note 3)
Interest expense
Other
Net investment income

Realized and unrealized gain (loss) on investments:	Realized gain on investments
	Increase (decrease) in unrealized gain on investments
	Net gain (loss) on investments

Increase (decrease) in net assets resulting from operations	Total
---	--------------

The accompanying notes are an integral part of these financial statements.

Cash Fund	Capital Fund	1991 Total	1990 Total
\$598,798	\$ 72,231,204	\$ 72,830,002	\$ 79,615,230
—	46,864,724	46,864,724	39,253,026
—	28,318,512	28,318,512	26,572,972
—	9,603,612	9,603,612	6,503,315
—	244,822	244,822	185,966
<u>\$598,798</u>	<u>\$ 157,262,874</u>	<u>\$ 157,861,672</u>	<u>\$ 152,130,509</u>
—	18,027,075	18,027,075	16,171,343
—	2,810,891	2,810,891	2,750,584
—	1,040,882	1,040,882	1,778,065
<u>\$598,798</u>	<u>\$ 135,384,026</u>	<u>\$ 135,982,824</u>	<u>\$ 131,430,517</u>
\$ —	\$ 4,318,649	\$ 4,318,649	\$ 67,065,604
—	(195,176,069)	(195,176,069)	19,358,202
<u>\$ —</u>	<u>\$(190,857,420)</u>	<u>\$(190,857,420)</u>	<u>\$ 86,423,806</u>
<u>\$598,798</u>	<u>\$ (55,473,394)</u>	<u>\$ (54,874,596)</u>	<u>\$217,854,323</u>

Statements of changes in net assets

For the years ended June 30, 1991 and 1990

From operations:

Net investment income
Realized gain on investments
Increase (decrease) in unrealized gain
on investments
Increase (decrease) in net assets resulting from operations
State appropriations

Total increase (decrease) in net assets

**Distributions to
member systems
from:**

Net investment income
Realized gain on investments
State appropriations

Total distributions to member systems

**From fund unit
transactions:**

Proceeds from original unit sales
Proceeds from subsequent unit sales
Net asset value of units issued to member systems in reinvestment of
net investment income, realized gain and state appropriations
Cost of units repurchased
Interfund transfers
Increase (decrease) in net assets derived from fund unit transactions

Total increase (decrease) in net assets

Net assets:

Net assets, beginning of period
Net assets, end of period

The accompanying notes are an integral part of these financial statements.

Cash Fund	Capital Fund	1991 Total	1990 Total
\$ 598,798	\$ 135,384,026	\$ 135,982,824	\$ 131,430,517
—	4,318,649	4,318,649	67,065,604
—	(195,176,069)	(195,176,069)	19,358,202
\$ 598,798	\$ (55,473,394)	\$ (54,874,596)	\$ 217,854,323
—	5,947,229	5,947,229	—
<u>\$ 598,798</u>	<u>\$ (49,526,165)</u>	<u>\$ (48,927,367)</u>	<u>\$ 217,854,323</u>
\$ (598,798)	\$ (135,384,026)	\$ (135,982,824)	\$ (131,430,517)
—	(4,318,649)	(4,318,649)	(67,065,604)
—	(5,947,229)	(5,947,229)	—
<u>\$ (598,798)</u>	<u>\$ (145,649,904)</u>	<u>\$ (146,248,702)</u>	<u>\$ (198,496,121)</u>
\$ —	\$ —	\$ —	\$ 9,494,432
65,403,239	111,090,892	176,494,131	141,951,270
598,798	145,649,904	146,248,702	198,496,121
(40,825,985)	(18,115,894)	(58,941,879)	(40,639,586)
(27,218,393)	27,218,393	—	—
<u>\$ (2,042,341)</u>	<u>\$ 265,843,295</u>	<u>\$ 263,800,954</u>	<u>\$ 309,302,237</u>
<u>\$ (2,042,341)</u>	<u>\$ 70,667,226</u>	<u>\$ 68,624,885</u>	<u>\$ 328,660,439</u>
7,484,669	2,957,412,276	2,964,896,945	2,636,236,506
<u>\$ 5,442,328</u>	<u>\$3,028,079,502</u>	<u>\$3,033,521,830</u>	<u>\$2,964,896,945</u>

Pension Reserves Investment Trust Fund

Notes to financial statements

June 30, 1991

Note 1:
Description of the
Pension Reserves
Investment Trust
Fund

The Pension Reserves Investment Trust Fund (PRIT) was created in 1984 by the Commonwealth of Massachusetts through legislation (Chapter 661 of the Acts of 1983, as amended by the Acts of 1987) and is the investment portfolio for the assets of member state and local retirement systems. The Pension Reserves Investment Management Board (the Board) was created by the same legislation to manage PRIT.

Systems joining PRIT have the option to be Participating or Purchasing Systems. Participating Systems must transfer all of their retirement system assets to PRIT. Purchasing Systems, along with the Participating Systems, share in the investment earnings of PRIT based on their proportionate share of net assets (see Note 2). The total number of Participating and Purchasing Systems at June 30, 1991 are 18 and 13, respectively.

PRIT consists of two funds, the Capital Fund and the Cash Fund. The Capital Fund serves as the long-term asset portfolio. The portfolio asset allocation plan includes stocks, bonds, money market investments, international investments, real estate and other alternative investments. The Cash Fund consists of short-term investments which are used to meet the liquidity requirements of the various Participating and Purchasing Systems.

Note 2:
Summary of
Significant
Accounting Policies

The following is a summary of significant accounting policies followed by PRIT, which are in conformity with those generally accepted in the industry:

Valuation of Investments Security transactions are recorded on the trade date of the securities purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a member system, the market value of the securities on the transfer date. The Capital Fund is valued at month-end, while the Cash Fund is valued daily.

Investments in bonds and U.S. Government agency and Treasury obligations are valued by an independent pricing service. In determining the price, the service reflects such factors as security prices, yields, maturities and ratings, supplemented by dealer quotations. Money market and other short-term investments, both domestic and international, are recorded using the amortized cost method, which approximates market value. Domestic and international investments in equity securities traded on national securities exchanges are valued at the last sale price or, if no sale, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter bid prices. Investments in real estate are valued by the Board, with input from the real estate managers and other advisers at estimated market values as of June 30, 1991. Alternative investments include venture capital, leveraged buyouts, private placements and other investments where the structure, risk profile and return potential differ from traditional equity and fixed income investments. These

Note 2:
Summary of
Significant
Accounting Policies

investments are included in the balance sheets at estimated market values determined by the Board and the alternative investment managers.

Dividend income is recorded on the ex dividend date and interest income is recorded when earned.

Gains and losses from sales of investments are calculated on the average cost method.

Fund Units

Capital Fund: The number of units resulting from the initial transfer of a retirement system's assets to PRIT or from the subsequent sales or repurchases of units is calculated by dividing the market value of the assets involved by the unit price at the end of the month.

Net investment income and net realized gains are reinvested in units at the end of each month as follows:

- Net investment income and net realized gains for the month are allocated between the systems, based on their proportionate share of the net assets at the beginning of the month.
- The allocated portions are then divided by the beginning-of-the-month unit price, adjusted for the change in unrealized appreciation (depreciation) of investments during the current month, to determine each system's incremental number of units.
- If the Capital Fund incurs net realized losses, the losses are allocated between the systems using the same method as for gains, thereby reducing the number of units held by each system.

Cash Fund: Sales and repurchases of units by the systems are recorded in the Cash Fund on the trade date at the fund's daily price of \$1.00 per unit. Net investment income is allocated daily between the systems based on their proportionate share of net assets and is reinvested in units at month-end.

Note 3:
Management Fees

In accordance with the Board's Operating Trust, all expenses incurred by the Board in managing PRIT are charged to PRIT in the form of management fees. These fees primarily consist of investment manager, advisory and professional fees, salaries and other operating expenses of the Board.

Investment Managers Investment management fees are paid to all of PRIT's fully discretionary external asset managers pursuant to written contractual arrangements. The fees for equity and fixed income managers are calculated and paid on a quarterly basis based upon the net asset value of each manager's portfolio. In some cases, managers are paid on a "performance fee" basis, characterized by a low base fee, with an incremental fee paid on a quarterly basis in the event that a manager outperforms

Note 3:
Management Fees
continued

the agreed-upon contractual benchmark.

Real estate management fees are structured differently. The "open" and "closed-end" funds charge fees that are based on net asset value. The separate account relationships which PRIT has negotiated are typified by fees which are lower than normal during the hold period of the investment, with a performance fee component paid when the original investment is terminated or otherwise restructured.

Alternative investment managers charge fees during the investment hold period based on total assets committed. Fees are payable commencing on the date that the partnership closes.

Investment management fees totaled \$14,321,000 and \$12,478,000 for the years ended June 30, 1991 and 1990, respectively.

Investment Advisers Wilshire Associates and other consultants serve as the Board's pension advisers. These consultants provide the Board with comprehensive pension investment advisory services, including recommendations on asset allocation, development of objectives, policies and guidelines for the Board and for the individual investment managers selected by the Board, assistance in the screening, interviewing and selection of investment managers, and measurement of external and internal performance of PRIT and the individual investment managers. These consultants received fees of approximately \$328,000 and \$288,000 for the years ended June 30, 1991 and 1990, respectively.

Investment Custodian State Street Bank and Trust Company (State Street) is the PRIT investment custodian and record keeper. State Street records all daily transactions for PRIT, including investment sales and purchases, investment income, expenses incurred by PRIT and all fund unit activity for the PRIT member systems. State Street also provides portfolio performance analysis. State Street receives an annual asset fee based on the market value of the PRIT fund.

State Street's compensation totaled approximately \$1,716,000 and \$1,661,000 for the years ended June 30, 1991 and 1990, respectively.

Note 4:
Notes Payable

Notes payable, consisting of variable and fixed rate notes, are summarized as follows:

	1991	1990
Mortgage secured by interests in certain partnerships owned by the Fund, maturing August 1, 2006 and bearing interest at a fixed rate of 10%	\$15,126,981	\$15,337,623
Note secured by interests in certain partnerships owned by the Fund, maturing August 31, 1994 and bearing interest at a rate of LIBOR plus .65%. The weighted average interest rate was 8.4% and 8.1% for the years ended June 30, 1991 and 1990, respectively	15,000,000	15,000,000
Total notes payable	\$30,126,981	\$30,337,623
Current portion of notes payable	217,589	211,195
Long-term notes payable	\$29,909,392	\$30,126,428
Principal payments required under these notes are as follows:		
	1992	\$ 217,589
	1993	244,583
	1994	15,270,194
	1995	298,486
	1996	325,797
	Thereafter	13,770,332
		\$30,126,981

Note 5:
**Purchases and Sales
of Investments**

During the year ended June 30, 1991, the cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were \$3,573,028,644 and \$3,294,826,687, respectively. During the year ended June 30, 1990, the cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were \$7,080,324,995 and \$6,573,217,026, respectively.

Notes to financial statements, continued

Note 6:
Commitments and
Contingencies

As of June 30, 1991, PRIT had outstanding commitments to invest \$90 million in real estate, \$54 million in alternative investments and \$116 million in special equity investments.

Note 7:
Security Lending
Program

In fiscal 1987, PRIT joined State Street's security lending program. Under this program, PRIT receives a fee for allowing brokerage firms to borrow certain of its securities for a predetermined period of time, securing such loans with cash collateral equaling 102% of the market value of the securities borrowed. All collateral is held by State Street. At June 30, 1991, the market value of securities on loan was approximately \$13 million for equities and \$42 million for fixed income investments and U.S. Government agency and Treasury obligations. These securities are included in investments at market value as of June 30, 1991 in the accompanying balance sheet.

Note 8:
State
Appropriations

In order to attract municipal retirement systems to join PRIT at its inception in 1984, the Commonwealth of Massachusetts (the State) agreed to reimburse the retirement systems for the unrealized losses in their investment portfolios at the date they transferred their assets to PRIT. The State contributed approximately \$1,251,000 to PRIT in 1991 for this purpose. The total amount was distributed to the retirement systems that joined PRIT at its inception. The State also contributed \$4,696,000 to the participating systems to assist them in funding their unfunded pension liabilities.

Note 9:
Presentation

Certain prior year balances have been reclassified to be consistent with the current year presentation.

Pension Reserves Investment Trust Fund
Schedule of Investments as of June 30, 1991
(Note 2)

Domestic Investments	Shares	Description	Cost	Market Value
		Equities		
	1,932,934	Basic industries	\$ 52,824,536	\$ 62,038,792
	2,051,196	Capital goods	65,176,693	85,351,466
	186,579	Conglomerates	8,856,306	9,275,272
	5,864,073	Consumer basics	160,197,496	254,589,093
	861,532	Consumer durable goods	25,671,777	26,620,275
	3,201,049	Consumer nondurable goods	84,831,866	118,216,902
	964,266	Consumer services	26,070,027	32,633,234
	4,932,222	Energy	98,858,187	114,502,739
	51,999,696	Finance	139,205,310	154,380,613
	1,537,981	General business	41,050,056	47,352,399
	528,502	Shelter	11,624,892	12,940,597
	5,541,458	Technology	117,562,380	117,863,849
	330,042	Transportation	11,182,603	13,526,048
	4,548,076	Utilities	118,471,572	145,136,107
	10,821,911	Miscellaneous	19,242,855	20,453,500
		Total equities	\$ 980,826,556	\$1,214,880,886
	Principal Amount	Description	Cost	Market Value
		Fixed Income Investments		
		Corporate Bonds		
	\$ 52,380,159	Finance and banking with rates ranging from 7.45% to 15.625% and maturities ranging from 1991 to 2020	\$ 49,314,800	\$ 49,082,271
	106,298,378	Industrials with variable and fixed rates ranging from 5.30% to 17.50%, and maturities ranging from 1991 to 2017	89,075,648	87,062,089
	43,705,473	Utilities with fixed and variable rates ranging from 3.25% to 17.50% and maturities ranging from 1991 to 2019	39,313,888	42,016,080
	6,264,000	Transportation with rates ranging from 4.50% to 15.50% and maturities ranging from 1992 to 2006	6,219,618	6,289,650

The accompanying notes are an integral part of this schedule.

Pension Reserves Investment Trust Fund
Schedule of Investments as of June 30, 1991
 (Note 2) Schedule I (Continued)

Principal Amount	Description	Cost	Market Value
	Fixed Income Investments (Continued)		
\$ 30,961,435	Miscellaneous with rates ranging from 4.50% to 17.50% and maturities from 1991 to 2006	\$ 25,469,323	\$ 18,039,892
	Total corporate bonds	\$ 209,393,277	\$ 202,489,982
23,960,165	Asset-backed securities with rates ranging from 6.85% to 9.375% and maturities from 1991 to 1996	\$ 23,769,531	\$ 24,445,261
20,000	Real estate with a rate of 13.0% and maturity of 1998	18,900	19,400
562,142	Insurance Contracts with various rates and maturities	565,142	577,711
1,170,343	Guaranteed investment contracts with rates ranging from 10.70% to 18.02% and maturities in 1993	1,170,343	1,170,343
67,160,000	Convertible bonds with various rates and maturities	32,799,099	35,951,187
	Total fixed income investments	\$ 267,716,292	\$ 264,653,884

The accompanying notes are an integral part of this schedule.

U.S. Government Agency and Treasury Obligations	Principal Amount	Description	Cost	Market Value
	\$ 2,100,000	Federal Farm Credit Banks with rates ranging from 10.65% to 12.35% and maturities ranging from 1993 to 1994	\$ 2,037,370	\$ 2,219,745
	3,300,000	Federal Home Loan Banks with rates ranging from 11.45% to 12.15% and maturities ranging from 1991 to 1993	3,213,375	3,355,493
	13,644,859	Federal Home Loan Pools with rates ranging from 7.00% to 11.50% and maturities ranging from 2001 to 2009	13,049,076	13,279,453
	12,825,000	Federal Home Loan Mortgage Corporation with rates ranging from 8.5% to 9.0% and maturities ranging from 2004 to 2019	12,755,392	13,008,240
	15,347,000	Federal National Mortgage Association with rates ranging from 8.00% to 12.00% and maturities ranging from 1992 to 2015	15,469,313	15,620,068
	22,767,328	Federal National Mortgage Association Pools with rates ranging from 6.25% to 10.00% and maturities ranging from 1997 to 2019	21,704,865	21,915,639
	3,274,535	Federal National Mortgage Association Pools with rates ranging from 8.5% to 9.0% and maturities ranging from 2017 to 2021	2,949,626	2,915,416
	42,690,003	Government National Mortgage Association Pools with rates ranging from 8.00% to 16.00% and maturities ranging from 2001 to 2021	41,469,600	42,386,337
	24,212,486	Other marketable mortgage obligations with rates ranging from 6.75% to 15.25% and maturities ranging from 1997 to 2021	23,594,991	23,990,056

The accompanying notes are an integral part of this schedule.

Pension Reserves Investment Trust Fund
Schedule of investments as of June 30, 1991
(Note 2)

U.S. Government Agency and Treasury Obligations (Continued)	Principal Amount	Description	Cost	Market Value
	\$ 54,606	Small Business Administration mortgage obligation with a rate of 9.875% and a maturity of 1993	\$ 54,606	\$ 54,606
	11,685,000	Resolution Funding Corp. with variable rates and maturities	1,458,130	1,615,859
	55,320,000	United States Treasury Bonds with rates ranging from 7.50% to 12.75% and maturities ranging from 1994 to 2021	62,096,002	62,718,556
	96,900,000	United States Treasury stripped interest securities with various rates and maturities	14,241,645	15,401,890
	124,995,000	United States Treasury Notes with rates ranging from 6.625% to 13.125% and maturities ranging from 1992 to 2001	129,728,904	129,332,062
	22,850,000	Other United States Treasuries with various rates and maturities	8,503,006	9,268,285
	3,000,000	SHIPCO with a rate of 8.10% and a maturity of 2002	2,805,000	2,939,250
	4,000,000	Tennessee Valley Authority with a rate of 8.375% and a maturity of 1999	3,987,640	3,972,480
	30,196,218	Other collateralized mortgage obligations with rates ranging from 8.125% to 11.50% and maturities ranging from 1993 to 2021	29,344,444	30,064,926
		Total U.S. Government agency and Treasury obligations	\$ 388,462,985	\$ 394,058,361

The accompanying notes are an integral part of this schedule.

Pension Reserves Investment Trust Fund
Schedule of investments as of June 30, 1991
 (Note 2)

Money Market	Description	Cost	Market Value
	State Street Short-term Investment Fund	\$ 53,957,000	\$ 53,957,000
	Certificates of Deposit	3,242,985	3,242,985
	United States Treasury Bills	23,819	23,819
	Massachusetts Municipal Depository Trust	4,201,157	4,201,157
	Total money market	\$ 61,424,961	\$ 61,424,961
Real Estate	Retail	\$143,318,000	\$ 97,490,000
	Industrial	58,276,000	51,065,000
	Office	111,905,000	60,019,000
	Residential	53,515,000	43,627,000
	Land	25,618,000	17,890,000
	Other	63,363,872	25,432,535
	Total real estate	\$ 455,995,872	\$ 295,523,535
Alternative Investments	Equity securities	\$ 69,320,961	\$ 60,406,147
	Debt securities	45,960,153	56,216,973
	Cash, cash equivalents and U.S. Treasury obligations	28,418,304	29,978,189
	Limited partnership interests	100,978,037	99,675,971
	Massachusetts Technology Development Corporation	1,281,391	1,281,391
	Total alternative investments	\$ 245,958,846	\$ 247,558,671

The accompanying notes are an integral part of this schedule.

Pension Reserves Investment Trust Fund
Schedule of investments as of June 30, 1991
(Note 2)

International Investments	Units	Description	Cost	Market Value
		Equities		
	6,370,420	Basic industries	\$ 34,235,678	\$ 31,525,138
	5,447,415	Capital goods	40,964,163	39,921,654
	1,350	Commingled	52,289	19,302
	7,371,724	Conglomerates	13,659,260	13,612,718
	6,361,899	Consumer basics	49,142,742	52,529,704
	2,368,264	Consumer durable goods	22,122,798	21,213,811
	5,104,940	Consumer nondurable goods	37,012,655	38,586,309
	2,426,427	Consumer services	8,374,448	7,333,776
	1,340,530	Energy	8,694,077	9,085,770
	11,615,213	Finance	88,952,750	82,672,510
	7,671,360	General business	24,925,888	24,917,819
	9,383,360	Shelter	41,963,566	41,911,986
	2,827,923	Technology	13,637,570	13,119,311
	914,910	Transportation	5,986,014	5,617,797
	10,016,437	Utilities	33,678,527	34,447,803
	989,928,429	Miscellaneous	45,112,903	43,909,003
		Total equities	\$ 468,515,328	\$ 460,424,411
Foreign Government Treasury Obligations		Description	Cost	Market Value
		Government and Supranational with rates ranging from zero coupon to 17.0% and maturities from 1992 to 2030	\$ 59,277,007	\$ 56,730,497
Fixed Income		Corporate bonds with rates ranging from 2.0% to 13.0% and maturities ranging from 1994 to 2007	24,228,416	24,495,056
		Convertible Bonds with various rates and maturities	2,395,178	2,315,578
Money Market Investments		Various foreign cash and cash equivalents	15,334,634	15,334,634
		Total fixed income	\$ 101,235,235	\$ 98,875,765
		Total international investments	\$ 569,750,563	\$ 559,300,176
		Total investments	\$2,970,136,075	\$3,037,400,474

Note: A detailed portfolio listing is available for review at the Pension Reserves Investment Management Board.

The accompanying notes are an integral part of this schedule.

Members of the PRIM Board

June 30, 1991

The members of the Pension Reserves Investment Management Board consist of designated representatives of the Governor and the State Treasurer, as well as elected and appointed representatives of state, county and municipal employees. By law, one member must be a private citizen experienced in the field of investment or financial management, one must be a person who is not an employee or officer of the Commonwealth, two must be representatives of employee organizations, two must be elected by state employees and teachers, and one must be the Commissioner of the Public Employee Retirement Administration. Members serve without compensation.

Joseph D. Malone, Chairman, is the Treasurer of the Commonwealth of Massachusetts. Ex-officio member.

Joseph Bonavita, appointed by the State Treasurer, is Executive Director of the American Federation of State, County and Municipal Employees, council 93, AFL-CIO. Term expires 4/27/92.

Robert Brousseau, elected by the members of the State Teachers' retirement System, is a teacher in the Wareham public schools. Term expires 7/20/93.

Arthur J. Gutierrez, appointed by the State Treasurer, is President of The Gutierrez Company, a real estate development firm located in Burlington, Massachusetts. Term expires 6/5/93.

James B.G. Hearty, a designee of the Governor, is Assistant Secretary of the Executive Office of Administration and Finance and the Director of Finance for the Commonwealth. Ex-officio member.

Antoinette Leoney, appointed by the Governor, is a private attorney with significant experience in governmental law. Term expires 2/1/92.

John J. McGlynn, Vice Chairman, is the Commissioner of the Division of Public Employee Retirement Administration. Ex-officio member.

Daniel J. O'Neil, appointed by the Governor, is President of the Massachusetts Correction Officers Federated Union. Term expires 3/30/95.

Ralph White, elected by the members of the State Retirement System, is President of the Retired State, County and Municipal Employees Association of Massachusetts. Term expires 7/20/93.

**Pension Reserves
Investment
Management Board**

Boston, Massachusetts
617 439-4600

Facsimile
617 439-6989

Design
Powell Advertising & Design,
Boston

Printing
Colonial Printing Company,
Malden



MASS. PR 38.1: 991-992

GOVERNMENT PRINTING OFFICE
1998

OCT 1998

UNIVERSITY OF MASSACHUSETTS
BOSTON

OT 1998

PRIT

Pension Reserves Investment Trust Fund
Financial Statements as of June 30, 1992 and 1991
Together with Letter from the Chairman
and Auditor's Report





PENSION
RESERVES
INVESTMENT
MANAGEMENT
BOARD

December 23, 1992

Joseph D. Malone
CHAIRMAN

Paul V. Doane
EXECUTIVE DIRECTOR

Dear Participants,

This past Fiscal Year, ending June 30, 1992, marked an important period in the history of the PRIM Board. When I assumed my responsibilities as Treasurer and Receiver General of the Commonwealth, and as a result my Chairmanship of the PRIM Board, I pledged to move prudently but decisively to address a multiple set of issues and concerns regarding the Pension Reserves Investment Trust (PRIT) Fund.

Ultimately my goal is to make the Commonwealth's Pension System a model within the public pension community. To accomplish that goal will require a commitment to bringing aboard the finest in Trustees, staff, investment managers and advisors that are available and willing to serve. In addition, it will require the development and refinement of essential building blocks to sound investment decision making in the form of effective and comprehensive investment guidelines and policies. These guidelines fortify our disciplined approach to the oversight of existing portfolios and managers.

This past Fiscal Year incorporated the first twelve months with its Executive Director, Paul Doane, Esquire. The Year was marked by many critically important steps being taken to build credibility and restore strong levels of performance. I would highlight the following:

- 1) a complete review of the Fund's long term asset allocation. Revisions included a balancing of styles in the domestic equity portfolio and an increased emphasis on globalization of investments, both fixed and equities,
- 2) a complete review of all managers. Analysis of styles and performance resulted in a number of replacements of those consistent underperformers or those whose styles failed to match current allocations.
- 3) an exhaustive review of several consultant/advisory relationships. PRIM retained new outside legal, real estate and accounting firms.
- 4) the development of a series of critical policy statements to guide future decision making. These included: real estate investments, personnel, performance fees for investment managers, "in state" investments, operating Bylaws, among others.

200 State Street
13th Floor
Boston
Massachusetts
02109

617-439-4600



5) the establishment of working committees of the Board. These committees consist of Board members, representatives of our participant systems, and members of the investment /business community. The Committees include: Investment, Real Estate, Administration, and Audit,

6) the restructuring of PRIM Staff and responsibilities. Staff has been reduced from 13 to 11. Their responsibilities have been redirected to place emphasis on the monitoring and due diligence of investments,

7) a major commitment to prudently reduce operating costs of the Fund. Aggressive efforts to tighten internal controls, renegotiate contracts institute performance-based fees, and realize economies of scale and other efficiencies resulted in a reduction of nearly 20% from the proposed FY 1992 budget.

This past year was very much oriented toward stabilizing troubled situations, building the internal structure, and establishing long-term plans and goals for the Fund. We had to take some extremely difficult steps to deal with the more serious situations that were inherited. The revaluation of PRIT's real estate portfolio was painful but prudently appropriate. The redeployment of assets is not without near term costs but necessary to realize the important long-term positives. The change of staff and restructuring of responsibilities requires time to fully impact the process. But these key steps and others taken in the past Fiscal Year are now behind us. We look to the future with great promise and expectation and have established equally important goals for FY 1993 and anticipate our successful attainment of them.

I am especially grateful to the dedicated members of the PRIM Board of Trustees. During the past year, Mr. Greg White, a principal with a Boston-based venture capital firm was appointed by Governor William Weld to the Board replacing Attorney Antoinette Leoney, whose four-year term had expired. Mr. White assumed his duties last February and serves as a member of the Investment Committee. At the end of the Fiscal Year, the Board has one pending appointment, the vacancy created by the expiration of the term of former member Joseph Bonavita. For the Board and its investors, I express my personal thanks to Ms. Leoney and Mr. Bonavita for their years of dedicated service.

Sincerely,

Joseph D. Malone
Chairman

JDM:mem



REPORT OF INDEPENDENT AUDITORS

Pension Reserves Investment Management Board
and Member Systems of the Pension Reserves
Investment Trust Fund

We have audited the accompanying statement of assets and liabilities of the Pension Reserves Investment Trust Fund, including the schedule of investments, as of June 30, 1992, and the related statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Pension Reserves Investment Trust Fund for the year ended June 30, 1991 were audited by other auditors whose report dated November 20, 1991 expressed an unqualified opinion on those statements and included an explanatory paragraph that described the uncertainty of valuation of real estate and alternative investments.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1992 financial statements and schedule referred to above present fairly, in all material respects, the financial position of the Pension Reserves Investment Trust Fund at June 30, 1992, and the results of its operations and the changes in its net assets for the year then ended in conformity with generally accepted accounting principles.

As explained in Note B, the financial statements include real estate and alternative investments valued at \$516,786,050 (15% of net assets), whose values have been estimated by the Pension Reserve Investment Management Board, with input from real estate and alternative investment managers and other advisers, in the absence of readily ascertainable market values. We have



reviewed the procedures used by the Board in arriving at its estimate of value of such investments and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Ernst + Young

November 13, 1992



STATEMENT OF ASSETS AND LIABILITIES

PENSION RESERVES INVESTMENT TRUST FUND

June 30, 1992

(with comparative totals as of June 30, 1991).

	Cash Fund	Capital Fund	1992	1991
ASSETS				
Investments at market value (cost of \$3,209,525,127 and \$2,970,136,075 at June 30, 1992 and 1991, respectively, see schedule of investments)--Note B:				
Equities				
Fixed income investments		\$1,298,043,401	\$1,298,043,401	\$1,214,880,886
U.S. government agency and treasury obligations and other		255,409,989	255,409,989	264,653,884
Money market investments		487,404,008	487,404,008	394,058,361
Real estate	\$2,729,968	242,596,014	245,325,982	61,424,961
Alternative investments		232,563,243	232,563,243	295,523,535
International investments		284,222,807	284,222,807	247,558,671
		514,977,909	514,977,909	559,300,176
TOTAL INVESTMENTS	2,729,968	3,315,217,371	3,317,947,339	3,037,400,474
Cash		35,321,853	35,321,853	12,343,147
Dividends and interest receivable		21,966,994	21,966,994	21,029,985
Receivable for investments sold	12,880	91,222,963	91,235,843	19,280,894
Other assets		60,464	60,464	64,171
TOTAL ASSETS	2,742,848	3,463,789,645	3,466,532,493	3,090,118,671
LIABILITIES				
Management fees payable--Note C		2,076,954	2,076,954	1,966,455
Payable for investments purchased		74,918,298	74,918,298	24,443,612
Other liabilities	69,142	72,492	141,634	59,793
Current portion of notes payable--Note D		245,517	245,517	217,589
Long-term notes payable--Note D		29,664,783	29,664,783	29,909,392
TOTAL LIABILITIES	69,142	106,978,044	107,047,186	56,596,841
COMMITMENTS AND CONTINGENCIES--Note F				
NET ASSETS				
Fund units (2,877,292,334 and 2,613,880,418 Capital Fund units outstanding at June 30, 1992 and 1991, respectively, and 2,673,706 and 5,442,328 Cash Fund units outstanding at June 30, 1992 and 1991, respectively)--Notes A and B	2,673,706	3,248,389,389	3,251,063,095	2,966,257,431
Net unrealized gain on investments		108,422,212	108,422,212	67,264,399
TOTAL NET ASSETS (equivalent to \$1.17 and \$1.16 per Capital Fund unit based on 2,877,292,334 and 2,613,880,418 units outstanding at June 30, 1992 and 1991, respectively, and \$1.00 per Cash Fund unit based on 2,673,706 and 5,442,328 units outstanding at June 30, 1992 and 1991, respectively)	\$2,673,706	\$3,356,811,601	\$3,359,485,307	\$3,033,521,830

See notes to financial statements.



STATEMENT OF OPERATIONS

PENSION RESERVES INVESTMENT TRUST FUND

Year Ended June 30, 1992
(with comparative totals for 1991)

	Cash Fund	Capital Fund	Year Ended June 30	
			1992	1991
Investment Income:				
Interest	\$276,129	\$ 68,596,370	\$ 68,872,499	\$ 72,399,097
Dividends		43,086,320	43,086,320	46,864,724
Real estate income		18,688,432	18,688,432	28,318,512
Alternative investment income		18,014,238	18,014,238	9,848,434
Security lending income--Note G		732,422	732,422	430,905
TOTAL INVESTMENT INCOME	<u>276,129</u>	<u>149,117,782</u>	<u>149,393,911</u>	<u>157,861,672</u>
Less:				
Management fees--Note C		19,780,357	19,780,357	18,027,075
Interest expense		2,441,614	2,441,614	2,810,891
Other		<u>1,233,273</u>	<u>1,233,273</u>	<u>1,040,882</u>
NET INVESTMENT INCOME	<u>276,129</u>	<u>125,662,538</u>	<u>125,938,667</u>	<u>135,982,824</u>
Realized gain on investments		93,101,483	93,101,483	4,318,649
Increase (decrease) in unrealized gain on investments		<u>41,157,813</u>	<u>41,157,813</u>	<u>(195,176,069)</u>
NET GAIN (LOSS) ON INVESTMENTS		<u>134,259,296</u>	<u>134,259,296</u>	<u>(190,857,420)</u>
TOTAL	<u>\$276,129</u>	<u>\$259,921,834</u>	<u>\$260,197,963</u>	<u>\$ (54,874,596)</u>

See notes to financial statements.



STATEMENT OF CHANGES IN NET ASSETS

PENSION RESERVES INVESTMENT TRUST FUND

Year Ended June 30, 1992
(with comparative totals for 1991)

	Year Ended June 30	
	1992	1991
OPERATING ACTIVITIES		
Net investment income	\$ 276,129	\$ 125,938,667
Realized gain on investments		\$ 135,982,824
Increase (decrease) in unrealized gain on investments		93,101,483
		4,318,649
Increase (decrease) in net assets resulting from operations		41,157,813
		(195,176,069)
State appropriations	276,129	260,197,963
		(54,874,596)
Total increase (decrease) in net assets	276,129	272,304
		5,947,229
		(48,927,367)
DISTRIBUTIONS TO MEMBER SYSTEMS		
Net investment income	(276,129)	(125,938,667)
Realized gain on investments		(135,982,824)
State appropriations		(4,318,649)
		(5,947,229)
Total distributions to member systems	(276,129)	(272,304)
		(219,312,454)
		(146,248,702)
FUND UNIT TRANSACTIONS		
Proceeds from subsequent unit sales	49,402,484	133,557,873
Net asset value of units issued to member systems in reinvestment of net investment income, realized gain and state appropriations		176,494,131
Costs of units repurchased	276,129	219,312,454
Interfund transfers	(41,656,605)	(68,064,663)
	(10,790,630)	(58,941,879)
Net assets provided by (used for) fund unit transactions	(2,768,622)	284,805,664
		263,800,954
INCREASE (DECREASE) IN NET ASSETS	(2,768,622)	325,963,477
		68,624,885
Net assets at beginning of year	5,442,328	3,033,521,830
		2,964,896,945
NET ASSETS AT END OF YEAR	<u>\$ 2,673,706</u>	<u>\$3,359,485,307</u>
		<u>\$3,033,521,830</u>

See notes to financial statements.



NOTES TO FINANCIAL STATEMENTS

PENSION RESERVES INVESTMENT TRUST FUND

NOTE A--DESCRIPTION OF THE PENSION RESERVES INVESTMENT TRUST FUND

The Pension Reserves Investment Trust Fund (PRIT) was created in 1984 by the Commonwealth of Massachusetts through legislation (Chapter 661 of the Acts of 1983, as amended by the Acts of 1987) and is the investment portfolio for the assets of member state and local retirement systems. The Pension Reserves Investment Management Board (the Board) was created by the same legislation to manage PRIT.

Systems joining PRIT have the option to be Participating or Purchasing Systems. Participating Systems must transfer all of their retirement system assets to PRIT. Purchasing systems may contribute and withdraw funds at their discretion. Purchasing Systems and Participating Systems share in the investment earnings of PRIT based on their proportionate share of net assets (see Note B). At June 30, 1992, there were 18 Participating Systems and 14 Purchasing Systems. The Participating Systems include the State Employees' and the State Teachers' Retirement Systems. The remaining Participating and Purchasing systems are Massachusetts counties, cities and towns.

Pursuant to the terms of the enabling legislation, any balance remaining in the investment income accounts of the State Employees' and State Teachers' Retirement Systems shall be transferred to PRIT. Each system, once it has completed its annual report, is required to transfer these funds, known as "excess earnings," to PRIT on an annual basis. The State Employees' Retirement System is current in its excess earning payments to PRIT. As of June 30, 1992, the State Teachers' Retirement System is in arrears for calendar years 1988-1991. Payment for calendar year 1988 in the approximate amount of \$58 million is anticipated within fiscal 1993, with subsequent years to follow as a result of recent funding to the Teachers' System. Amounts for the other years are not known.

PRIT consists of two funds, the Capital Fund and the Cash Fund. The Capital Fund serves as the long-term asset portfolio. The portfolio asset allocation plan includes equities, bonds, money market investments, international investments, real estate and other alternative investments. The Cash Fund consists of short-term investments which are used to meet the liquidity requirements of the various Participating and Purchasing Systems.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Valuation of Investments: Security transactions are recorded on the trade date of the securities purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a member system, the market value of the securities on the transfer date. The Capital Fund is valued at month end, while the Cash Fund is valued daily.

Investments in bonds and U.S. government agency and treasury obligations are valued by an independent pricing service. In determining the price, the service reflects such factors as security prices, yields, maturities and ratings, supplemented by dealer quotations. Money market and other short-term investments, both domestic and international, are recorded using the amortized cost method, which approximates market value. Domestic and international

NOTES TO FINANCIAL STATEMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

investments in equity securities traded on national securities exchanges are valued at the last sale price or, if no sale, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter bid prices. Investments in real estate are valued by the Board, with input from the real estate managers and other advisers, at estimated values as of June 30, 1992. Alternative investments include venture capital, leveraged buyouts, private placements and other investments where the structure, risk profile and return potential differ from traditional equity and fixed income investments. These investments are also included in the balance sheets as estimated values determined by the Board and the alternative investment managers.

Dividend income is recorded on the ex-dividend date and interest income is recorded when earned.

Concentrations of credit risk exist if a number of companies in which the Fund has invested are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate its exposure to concentrations of credit risk, PRIT invests in a variety of industries located in diverse geographic areas.

Gains and losses from sales of investments are calculated on the average cost method.

Fund Units:

Capital Fund: The number of units resulting from the initial transfer of a retirement system's assets to PRIT or from the subsequent sales or repurchases of units is calculated by dividing the market value of the assets involved by the unit price at the end of the month.

Net investment income and net realized gains are reinvested in units at the end of each month as follows:

- Net investment income and net realized gains for the month are allocated among the Systems, based on their proportionate share of the net assets at the beginning of the month.
- The allocated portions are then divided by the beginning-of-the month unit price, adjusted for the change in unrealized appreciation (depreciation) of investments during the current month, to determine each system's incremental number of units.
- If the Capital Fund incurs net realized losses, the losses are allocated among the Systems using the same method as for gains, thereby reducing the number of units held by each system.

ORIGINAL ARTICLES

1. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
2. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
3. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
4. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
5. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
6. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
7. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
8. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
9. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
10. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject

ORIGINAL ARTICLES

11. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
12. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
13. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
14. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
15. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
16. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
17. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
18. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
19. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
20. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject

ORIGINAL ARTICLES

21. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
22. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
23. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
24. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
25. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
26. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
27. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
28. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
29. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
30. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject

ORIGINAL ARTICLES

31. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
32. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
33. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
34. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
35. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
36. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
37. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
38. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject
39. The Effect of the Diet on the Blood Sugar in the Normal Adult Male Subject
40. The Effect of the Diet on the Blood Sugar in the Normal Adult Female Subject

NOTES TO FINANCIAL STATEMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Cash Fund: Sales and repurchases of units by the Systems are recorded in the Cash Fund on the trade date at the Fund's daily price of \$1.00 per unit. Net investment income is allocated daily among the Systems based on their proportionate share of net assets and is reinvested in units at month end.

Presentation: Certain prior year balances have been reclassified to be consistent with the current year presentation.

NOTE C--MANAGEMENT FEES

In accordance with the Board's Operating Trust declaration, expenses incurred by the Board in managing PRIT are charged to PRIT in the form of management fees. These fees primarily consist of investment manager, advisory and other professional fees, salaries and other operating expenses of the Board.

Investment Managers: Investment management fees are paid to all of the Board's fully discretionary external managers pursuant to written contracts. The fees for equity and fixed-income managers are calculated and paid on a quarterly basis. In most cases, equity managers are paid on a "performance fee" basis. A "performance fee" is characterized by a low base fee, with an incremental fee paid on a quarterly basis in the event a manager outperforms the contractual benchmark. Fixed-income manager fees are generally paid on a "non-performance fee" basis.

Real estate management fees are structured differently. The "open" and "closed-end" funds charge fees that are based on net asset value. The separate account relationships which PRIT has negotiated are typified by a base fee during the holding period of the investment, with a performance fee component paid when the original investment is terminated or otherwise restructured.

Alternative investment managers generally charge fees during the investment holding period based on total assets committed. Fees are payable commencing on the date that the partnership closes.

Investment manager fees totaled approximately \$16,059,000 and \$14,321,000 for the years ended June 30, 1992 and 1991, respectively.

Investment Custodian: State Street Bank and Trust Company (State Street) is the PRIT investment custodian and record keeper. State Street records all daily transactions for PRIT, including investment sales and purchases, investment income, expenses incurred by PRIT and all fund unit activity for the PRIT member systems. State Street also provides portfolio performance analysis. State Street receives an annual asset fee based on the market value of the PRIT fund.

ORIGINAL ARTICLES

1. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
2. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
3. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient

4. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient

5. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient

6. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
7. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient

8. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
9. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
10. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient

11. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
12. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
13. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient

14. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
15. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
16. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient

17. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
18. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient
19. The Effect of the Diet on the Blood Sugar in the Normal Individual and in the Diabetic Patient

NOTES TO FINANCIAL STATEMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

NOTE C--MANAGEMENT FEES--CONTINUED

State Street's compensation totaled approximately \$1,919,000 and \$1,716,000 for the years ended June 30, 1992 and 1991, respectively.

Other Fees: The remaining management fees, approximating \$1,803,000 and \$1,990,000 for the years ended June 30, 1992 and 1991, respectively, were reimbursements of the Board's operating expenses, including employee compensation, professional fees and occupancy costs.

NOTE D--NOTES PAYABLE

Notes payable, consisting of variable and fixed rate notes, are summarized as follows:

	<u>1992</u>	<u>1991</u>
10% mortgage secured by interest in certain partnerships owned by the Fund, payable in monthly installments of \$144,000 through August 1, 2006.	\$14,910,300	\$15,126,981
Note secured by interests in certain partnerships owned by the Fund, maturing August 31, 1994 and bearing interest at a rate of LIBOR plus .65%. The LIBOR rates in effect at June 30, 1992 and 1991, respectively, were 3.9% and 6.2%.	<u>15,000,000</u>	<u>15,000,000</u>
TOTAL NOTES PAYABLE	29,910,300	30,126,981
Current portion of notes payable	<u>245,517</u>	<u>217,589</u>
LONG-TERM NOTES PAYABLE	<u>\$29,664,783</u>	<u>\$29,909,392</u>

Principal payments required under these notes are as follows:

1993	\$ 245,517
1994	271,218
1995	15,299,621
1996	327,054
1997	365,242
Thereafter	<u>13,401,648</u>
	<u>\$29,910,300</u>

NOTES TO FINANCIAL STATEMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

NOTE E--PURCHASES AND SALES OF INVESTMENTS

During the year ended June 30, 1992, the cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were \$3,843,250,627 and \$3,680,022,524, respectively. During the year ended June 30, 1991, the cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were \$3,573,028,644 and \$3,294,826,687, respectively.

NOTE F--COMMITMENTS AND CONTINGENCIES

As of June 30, 1992, PRIT had outstanding commitments to invest \$93 million in real estate, \$49 million in venture capital and \$78 million in special equity investments.

NOTE G--SECURITY LENDING PROGRAM

In fiscal 1987, PRIT joined State Street's security lending program. Under this program, PRIT receives a fee for allowing brokerage firms to borrow certain of its securities for a predetermined period of time, securing such loans with cash collateral equaling 102% of the market value of the securities borrowed. All collateral is held by State Street. At June 30, 1992, the market value of the securities on loan was approximately \$65 million for equities and \$32 million for fixed income investments and U.S. government agency and treasury obligations. These securities are included in investments at market value as of June 30, 1992 in the accompanying balance sheet.

NOTE H--STATE APPROPRIATIONS

To attract municipal retirement systems to join PRIT at its inception in 1984, the Commonwealth of Massachusetts (the State) agreed to reimburse the retirement systems for the unrealized losses in their investment portfolios at the date they transferred their assets to PRIT. The State contributed approximately \$272,304 to PRIT in 1992 for this purpose (\$1,251,000 in 1991) which amounts were distributed to the six eligible retirement systems that joined PRIT on or before July 1, 1986. The state also contributed \$4,696,000, which consisted of appropriations due from the fiscal years' 1990 and 1991 state budgets, to the participating systems in 1991 to assist them in funding their unfunded pensions liabilities.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

NOTE I--SUBSEQUENT ACTIVITY (UNAUDITED)

Net realized gains for the quarter ended September 30, 1992 were \$45,308,000. Net unrealized gains decreased by \$3,368,000 during the same period. Contributions and redemptions were \$32,423,000 and \$36,263,000, respectively, for the same period. Redemptions reflect three systems that withdrew their entire balances. Two other systems have indicated their intention to withdraw, subject to a mandatory waiting period. On a combined basis, these systems represent approximately \$34 million of PRIT's net assets as of June 30, 1992.

In accordance with Chapter 70 of the Commonwealth of Massachusetts General Laws, PRIT transferred \$12 million to the Commonwealth's General Fund subsequent to year end to cover the 5% Cost of Living Adjustment (COLA) for local retirement systems from January 1, 1992 to June 30, 1992.



SCHEDULE OF INVESTMENTS

PENSION RESERVES INVESTMENT TRUST FUND

June 30, 1992

<u>Shares</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
DOMESTIC INVESTMENTS			
<u>Equities</u>			
1,861,460	Basic industries	\$ 59,767,189	\$ 67,396,112
2,160,293	Capital goods	68,301,439	85,537,166
7,404,390	Consumer basics	174,771,449	269,734,069
1,048,250	Consumer durable goods	34,308,353	40,367,516
3,970,865	Consumer nondurable goods	101,301,118	136,111,453
1,101,923	Consumer services	28,227,263	38,210,321
2,357,140	Energy	87,220,795	95,320,711
4,673,062	Finance	146,569,482	178,884,242
1,592,451	General business	44,005,937	53,426,530
750,979	Shelter	19,723,752	21,871,976
3,545,716	Technology	124,039,767	127,245,460
584,242	Transportation	13,465,569	19,241,646
4,090,069	Utilities	107,545,215	142,840,041
11,377,185	Miscellaneous	19,857,068	21,856,158
	TOTAL EQUITIES	<u>1,029,104,396</u>	<u>1,298,043,401</u>

Principal
Amount

Fixed Income Investments

Corporate Bonds:

\$ 74,884,975	Financing and banking with rates ranging from 4.810% to 18.5% and maturities ranging from 1992 to 2020	70,108,838	73,702,759
69,036,067	Industrials with variable and fixed rates ranging from 6% to 17% and maturities ranging from 1992 to 2019	60,418,063	64,253,679
16,828,166	Utilities with fixed and variable rates ranging from 5.2% to 14% and maturities ranging from 1993 to 2021	15,653,018	16,172,479

See notes to financial statements.



SCHEDULE OF INVESTMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

June 30, 1992

<u>Principal Amount</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
DOMESTIC INVESTMENTS--CONTINUED			
<u>Fixed Income Investments--Continued</u>			
Corporate Bonds--Continued:			
\$ 3,270,000	Transportation with rates ranging from 5% to 11.75% and maturities ranging from 1992 to 2006	\$ 3,200,384	\$ 3,280,701
3,385,000	Health care with rates ranging from 9% to 12.25% and maturities from 1995 to 2016	2,513,273	2,750,145
11,456,600	Media and entertainment with rates ranging from 9% to 14.5% and maturities from 1993 to 2013	8,288,320	9,156,974
13,833,000	Retail with rates ranging from 9.125% to 14.375% and maturities from 1993 to 2006	11,300,519	12,932,779
5,530,000	Telecommunications with rates ranging from 11.75% to 14.625% and maturities from 1995 to 2007	4,726,741	3,714,145
15,808,000	Miscellaneous with rates ranging from 4.5% to 16.75% and maturities from 1994 to 2014	11,217,932	11,648,556
	TOTAL CORPORATE BONDS	<u>187,427,088</u>	<u>197,612,217</u>
8,224,929	Asset-backed securities with rates ranging from 5.7% to 9.375% and maturities from 1995 to 2000	8,359,772	8,451,604
62,644,863	Convertible bonds with rates ranging from 4.5% to 11.5% and maturities from 1997 to 2002	39,295,469	47,376,711

See notes to financial statements.



SCHEDULE OF INVESTMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

June 30, 1992

<u>Principal Amount</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
DOMESTIC INVESTMENTS--CONTINUED			
<u>Fixed Income Investments--Continued</u>			
\$ 1,967,258	Miscellaneous with rates ranging from 10.7% to 13% and maturities from 1997 to 2002	\$ 1,966,358	\$ 1,969,457
	TOTAL FIXED INCOME INVESTMENTS	<u>237,048,687</u>	<u>255,409,989</u>
U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS AND OTHER			
1,100,000	Federal Farm Credit Banks with rates ranging from 10.65% to 12.5% and maturities ranging from 1993 to 2015	1,009,870	1,148,654
100,000	Federal Home Loan Banks with rates ranging from 11.45% to 12.15% and maturities ranging from 1991 to 1993	110,375	110,937
7,611,911	Federal Home Loan Pools with rates ranging from 7.00% to 11.50% and maturities ranging from 2001 to 2022	7,698,668	7,926,401
23,685,961	Federal Home Loan Mortgage Corporation with rates ranging from 7% to 9.0% and maturities ranging from 2004 to 2019	23,109,572	24,242,411
58,987,141	Federal National Mortgage Association with rates ranging from 7% to 11.7% and maturities ranging from 1992 to 2015	50,638,151	53,043,884

See notes to financial statements.



SCHEDULE OF INVESTMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

June 30, 1992

<u>Principal Amount</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
	U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS AND OTHER-- CONTINUED		
\$ 21,977,288	Federal National Mortgage Association Pools with rates ranging from 6.25% to 11% and maturities ranging from 1997 to 2019	\$ 21,350,067	\$ 22,541,955
26,723,846	Government National Mortgage Association Pools with rates ranging from 8.2% to 13.5% and maturities ranging from 2001 to 2021	27,013,962	28,447,119
1,100,000	Other marketable mortgage obligations with rates ranging from 7.7% to 9.65% and maturities ranging from 2016 to 2018	1,151,874	1,167,795
2,425,424	Small Business Administration mortgage obligation with rates ranging from 8.9% to 9.875% and maturities ranging from 1993 to 2001	2,490,059	2,514,963
11,484,693	Resolution Funding Corp. with various rates and maturities	3,247,600	3,641,127
112,000,000	United States Treasury Bonds with rates ranging from 8% to 12.375% and maturities ranging from 1994 to 2021	120,806,059	127,804,483
162,785,000	United States Treasury Notes with rates ranging from 5% to 10.5% and maturities ranging from 1995 to 2013	165,971,473	171,258,813

See notes to financial statements.



SCHEDULE OF INVESTMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

June 30, 1992

<u>Principal Amount</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
	U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS AND OTHER-- CONTINUED		
\$ 21,655,000	Other United States Treasuries with various rates and maturities	\$ 9,563,704	\$ 9,968,392
1,000,000	Tennessee Valley Authority with a rate of 8.375% and a maturity of 1999	996,910	1,070,620
30,481,309	Miscellaneous other obligations with rates ranging from 6.875% to 15.25% and maturities ranging from 1993 to 2022	30,394,907	32,516,454
	TOTAL U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS AND OTHER	465,553,251	487,404,008
	MONEY MARKET INVESTMENTS		
	State Street Short-Term Investment Fund	240,391,140	240,410,513
	Certificates of Deposit	128,985	128,985
	United States Treasury Bills	14,744	14,744
	Massachusetts Municipal Depository Trust	4,771,740	4,771,740
	TOTAL MONEY MARKET INVESTMENTS	245,306,609	245,325,982
	REAL ESTATE		
	Commingled funds	237,708,717	116,861,750
	Separate accounts	219,574,346	115,701,493
	TOTAL REAL ESTATE	457,283,063	232,563,243
	ALTERNATIVE INVESTMENTS		
	Venture capital	106,400,000	110,143,579
	Special equity	169,637,394	174,079,228
	TOTAL ALTERNATIVE INVESTMENTS	276,037,394	284,222,807

See notes to financial statements.



SCHEDULE OF INVESTMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

June 30, 1992

<u>Shares</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
INTERNATIONAL INVESTMENTS			
<u>Equities</u>			
2,697,348	Basic industries	\$ 16,438,636	\$ 16,479,690
4,852,401	Capital goods	25,365,126	22,645,749
7,887,603	Conglomerates	10,992,019	14,612,325
5,249,291	Consumer basics	47,081,204	50,652,655
997,839	Consumer durable goods	6,114,599	5,744,918
2,648,361	Consumer nondurable goods	34,908,340	37,484,117
2,746,618	Consumer services	3,393,125	3,533,941
563,090	Energy	3,708,603	4,247,860
6,146,257	Finance	34,917,749	32,917,915
1,677,994	General business	18,001,601	19,368,916
1,466,328	Shelter	15,628,368	14,978,659
3,163,217	Technology	9,893,866	10,907,519
98,000	Transportation	1,280,163	896,179
6,793,976	Utilities	32,507,290	37,094,214
75,431,694	Miscellaneous	142,525,587	141,543,915
	TOTAL EQUITIES	<u>402,756,276</u>	<u>413,108,572</u>
<u>Foreign Government Treasury</u>			
<u>Obligations</u>			
	Government and Supranational with rates ranging from 8.5% to 11% and maturities ranging from 1993 to 2002	67,615,736	71,335,768
<u>Fixed Income</u>			
	Corporate bonds with rates ranging from 2.0% to 13.0% and maturities ranging from 1994 to 2007	20,736,259	21,596,319
	Convertible Bonds with rates ranging from 2% to 11% and maturities ranging from 1993 to 2011	7,759,462	8,613,256

See notes to financial statements.



SCHEDULE OF INVESTMENTS--CONTINUED

PENSION RESERVES INVESTMENT TRUST FUND

June 30, 1992

<u>Shares</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
	INTERNATIONAL INVESTMENTS--CONTINUED		
	<u>Fixed Income</u> --Continued		
	Money Market Investments		
	Various foreign cash and cash equivalents	\$ 323,994	\$ 323,994
	TOTAL FIXED INCOME	<u>96,435,451</u>	<u>101,869,337</u>
	TOTAL INTERNATIONAL INVESTMENTS	<u>499,191,727</u>	<u>514,977,909</u>
	TOTAL INVESTMENTS	<u>\$3,209,525,127</u>	<u>\$3,317,947,339</u>

A detailed portfolio listing is available for review at the offices of the Pension Reserves Investment Management Board.

See notes to financial statements.



PRIT

**Pension Reserves Investment Trust
As of June 30, 1992**

INVESTMENT MANAGERS

Domestic and International Equity Managers:

Alliance Capital Management Corporation, New York City
Babson Stewart-Ivory, Boston
Bankers Trust Co., New York
Batterymarch Financial, Boston
Bear Stearns & Co., New York City
Capital Guardian, Los Angeles
Emerging Markets Management, Washington, D.C.
Fidelity Investments, Boston
H.D. International Ltd., London
Massachusetts Financial Services, Boston
PanAgora, Boston
Putnam Advisory Co., Inc. Boston
Rhumblin Advisors, Boston
Scudder, Stevens & Clark, New York City
State Street Bank & Trust Company, Boston
TCW Asset Management, Los Angeles

Domestic and International Fixed Income Managers

Banker's Trust, New York
Baring International/Asset Management, Ltd., London
Equitable Capital Management Corp., New York City
Fidelity Management, Boston
W.R. Huff Asset Management, Morristown
Massachusetts Financial Services, Boston
Pacific Investment Management Co., Newport Beach
The Putnam Advisory Co., Inc., Boston
N.M. Rothschild International Asset Management, London
Standish, Ayer & Wood, Boston

Domestic Real Estate Managers

AEW, Inc., Boston
Bear Sterns, New York
Boston Financial Group, Boston
Copley Real Estate Advisors, Inc., Boston
Heitman Advisory Corp., Chicago
Invesco Realty Advisors, Dallas
JMB Institutional Realty, Chicago
John Hancock Mutual Life Insurance Co., Boston
Massachusetts Mutual Life Insurance Co., Springfield
T.A. Associates Realty, Boston



Domestic and International Venture Capital and Special Equity Partnerships

Advent International Corp., Boston
Advent Management Opportunity, London
Alan Patricof Associates Ltd., New York City
Boston Ventures, Boston
Commonwealth Bioventures, Worcester
Davis Venture, Worcester
Davis Venture Partners, Tulsa
Forstmann Little & Co., New York City
Golder, Thoma and Cressey, Chicago
John Hancock Venture Capital Management, Boston
Joseph Littlejohn & Levy, New York City
Invexco, Inc., Houston
Kohlberg, Kravis & Roberts and Co., New York City
MMG Patricof, London
Morgan Holland Partners, Boston
Schroder UK Buyout Fund, London
Southern California Ventures, Englewood
Smith Offshore Exploration Co., Houston
TA Associates, Boston
Thomas H. Lee Acquisitions, Boston
Venture Capital Fund of New England, Boston
Vista Partners, New Canaan



PRIT

Pension Reserves Investment Trust Fund

BOARD OF TRUSTEES

**Pension Reserves Investment Management Board
Fiscal Year 1992**

Joseph D. Malone, Chairman

State Treasurer and Receiver-General. Ex Officio Member.

John McGlynn, Vice Chairman

Commissioner of Division of Public
Employee Retirement Administration. Ex
Officio Member.

James B.G Hearty, Designee of the Governor

Senior Vice President, Lehman Brothers.
Ex Officio Member.

Joseph Bonavita, Appointee of the State Treasurer

Executive Director of the American
Federation of State, County and Municipal
Employees, council 93, AFL-CIO.

Arthur Gutierrez, Appointee of State Treasurer

President, The Gutierrez Company.

Daniel J. O'Neil, Appointee of the Governor

President of the Massachusetts Correction
Officers Federated Union.

Gregory A. White, Appointee of the Governor

Vice President, UNC Partners, Inc.

Robert Brousseau, Elected Member

Elected by State Teachers Retirement
System. Teacher, Wareham High School.

Ralph White, Elected Member

Elected by State Employees Retirement
System. President of the Retired State,
County and Municipal Employees
Association of Massachusetts.

The members of the Pension Reserves Investment Management Board consist of designated representatives of the Governor and the State Treasurer, as well as elected and appointed representatives of state, county and municipal employees. By law, one member must be a citizen experienced in the field of investment or financial management, one must be a person who is not an employee or officer of the Commonwealth, two must be representatives of employee organizations. In addition, two must be elected by state teachers and employees, and one must be the Commissioner of the Public Employee Retirement Administration. Members serve without compensation.



MASS. PR 38,1:993

PENSION RESERVES INVESTMENT TRUST FUND

ANNUAL REPORT

FOR THE FISCAL YEAR ENDING JUNE 30, 1993



Contents

LETTER FROM THE CHAIRMAN	1
MESSAGE FROM THE EXECUTIVE DIRECTOR.....	3
OVERVIEW OF THE PRIT FUND	
THE PRIT FUND	6
THE PRIM BOARD	6
PRIM BOARD OF TRUSTEES.....	7
COMMITTEES OF THE PRIM BOARD	8
ASSET ALLOCATION AND INVESTMENT STRATEGIES	
ASSET ALLOCATION.....	9
INTERIM AND LONG-TERM ASSET ALLOCATION PLANS	9
INVESTMENT STRATEGIES.....	10
COMPOSITION OF THE PRIT FUND	11
PRIT FUND PERFORMANCE AND INVESTMENT MANAGERS	
FISCAL 1993 PERFORMANCE.....	12
PRIT FUND INVESTMENT MANAGERS AS OF JUNE 30, 1993.....	13
OUTSIDE ADVISORS.....	15
MEMBER STATE AND MUNICIPAL RETIREMENT SYSTEMS	16
AUDITED FINANCIAL STATEMENTS AND SCHEDULE	
REPORT OF THE INDEPENDENT AUDITORS.....	21
AUDITED FINANCIAL STATEMENTS AND SCHEDULE	22

GOVERNMENT DOCUMENTS
COLLECTION

OCT 23 1998

UNIVERSITY OF MASSACHUSETTS
LIBRARY



LETTER FROM THE CHAIRMAN

September 30, 1993

Dear Participants and Purchasers:

On behalf of the members of the PRIM Board, I am pleased to report that by all measures Fiscal 1993 was a success for the Pension Reserves Investment Trust (PRIT) Fund. The total assets of the PRIT Fund grew more than a half a billion dollars over the prior fiscal year, primarily because of strong returns from our global and special investments. In addition, the Fund's performance, as compared to other public fund master trusts, improved significantly in Fiscal 1993. The Fund's dramatic growth in both absolute and comparative terms confirms that the investment strategy we have followed over the past two years was the right approach. This strategy centers around three principles. First, sound and effective investment guidelines and policies are strictly followed. Second, the PRIM staff continually monitors the new line up of domestic and international managers. And third, the Fund's revised long-term asset allocation places an increased emphasis on global investments.

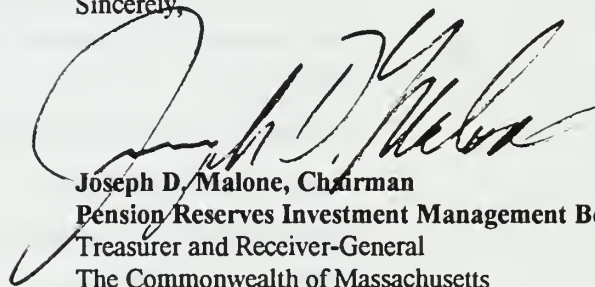
On the operations side, we expanded the scope of services to our Participants and Purchasers by providing an immediate confirmation process for deposits and redemptions and improving turnaround time for statements to participants. We implemented tight internal controls which reduced costs while improving effectiveness. We made revisions to fee structures and to our organization which reduced the cost of operating the Fund. In fact, this year the overall cost of operating the Fund reached our target of one half of one percent of Fund assets. I anticipate that the percentage cost of operating the fund will remain level or even decline slightly further as management continues to realize efficiencies and utilize performance-based fees which reward investment managers who outperform their benchmarks.

We could not have realized such a dramatic improvement overall without the commitment and insight of all the members of the Board and its committees, the guiding direction of our Executive Director Paul Doane, and the dedication of the PRIM staff. Paul will be leaving PRIM at the end of October and relocating to New York where he will be taking a position in the private sector. We wish him all the best.

This past year, I was pleased to appoint two new members to the PRIM Board. Joseph DeLorey, Treasurer of the National Association of Government Employees, will serve as the union representative of non-public safety municipal and state employees and as a member of the Administrative and Audit sub-committees of the Board. Glenn Johnson of G.M. Johnson Associates, Inc. will serve as the appointed investment professional and is a member of the Real Estate sub-committee. Both members bring distinguished public policy and investment experience to the Board.

To our Participants and Purchasers, I wish to reaffirm my goal to make the Commonwealth's Pension System a model of efficiency and performance. This past Fiscal Year marks the first full fiscal year since the Board revised its policies and hired its new team of investment managers. The continuing rewards of our initial efforts are most encouraging, and we have great expectations for success in the future.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'Joseph D. Malone', is written over the typed name and title.

Joseph D. Malone, Chairman
Pension Reserves Investment Management Board
Treasurer and Receiver-General
The Commonwealth of Massachusetts

MESSAGE FROM THE EXECUTIVE DIRECTOR

September 30, 1993

Dear Participants and Purchasers:

This past fiscal year marked an important period with respect to the future direction and performance of the PRIT Fund. I am very grateful for the patience and understanding which you have demonstrated during the past two years of a major reorganization of the Fund and the stabilization and revaluation of components of the investment portfolio. While I can never be assured there won't be tough sledding ahead, I am confident that we have implemented, over the past 24 months, important policies and guidelines to maximize the potential performance while minimizing the likelihood of experiencing the level of difficulties which were experienced, particularly in the real estate portfolio.

This past fiscal year permits a reasonable assessment as to the performance of the team of managers that have been assembled and were largely in place at the commencement of the fiscal year, July 1992. I am pleased to report that, over the past twelve months, the total fund returned 14.8%, placing it solidly in the second quartile of major public funds throughout the country. My goal, by the end of calendar year 1993, is to attain top quartile performance. You will recall that for the past three years, PRIT's annual performance was at the very bottom of the public fund universe. The leap from last place to the 37th percentile represents very meaningful progress. I feel it is an indication of our ability to attain the first quartile target during the current calendar year.

As we look to the next fiscal year, I can assure you that we will remain vigilant in our efforts to retain the strongest of investment managers that we can obtain. In addition, we will make every effort to continue to realize cost savings and operating efficiencies.

Directly related to my desire of improving performance was the task of simultaneously reducing the operating costs of the Fund. Each year, we have succeeded in reducing such costs. Most significantly during this past year was the adoption of a uniform fee policy by the PRIM Board which encompasses a performance-based fee strategy for PRIM's equity managers. We were very successful in negotiating with managers and revising contracts to include the adoption of incentive fees. This had the beneficial effect of helping to save over \$2 million in operating costs during the past fiscal year! Furthermore, through the RFP process and aggressive negotiating, we were able to reduce the cost of our important custodial services while retaining a top-tier Master Trust Custodian in the country, State Street Bank. As a result of our efforts, the PRIT Fund will realize net savings of an estimated \$5 million over the next three years, the term of the new contract. These and many other steps have permitted reductions in the cost of operations for each of the past two years and places us squarely within the operating cost target ($\frac{1}{2}$ of 1% of fund assets) which I had established two years ago. When I assumed responsibilities as Executive Director in June of 1991, the cost of operating the PRIT Fund was nearly 40 percent higher.

I am especially proud of the work accomplished during the past year by the Administrative and Finance personnel at PRIM. We have instituted an extensive set of important internal controls and operating procedures which have served to both streamline our accounting related activities as well as to permit an efficient delivery of information for monitoring and reporting purposes. This current audit was greatly facilitated as a result of the extensive procedures implemented.

The Board continued during the past fiscal year to adopt important policies and guidelines to assist in various phases of our investment and administrative program. The adoption of a policy guiding alternative investments and a revision and expansion of our real estate policy, in addition to the above-mentioned policy on incentive fees and operational by-laws for the Board, were adopted. In May we

conducted an Annual Client Conference which the vast majority of our systems attended. Due to the response, this will be continued as an annual event in order to maximize the opportunity for the exchange of information and ideas and to augment our regular one-on-one semi-annual updates.

I am most enthusiastic with our progress. We have an exceptional team of professional staff members and a very involved Board essential to the guiding of our investment program. We have established aggressive goals for the next 12 months and expect to explore all avenues to achieve the finest in performance.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Paul V. Doane', with a long horizontal flourish extending to the right.

Paul V. Doane, Esq.
Executive Director
Pension Reserves Investment Management Board

OVERVIEW OF THE PRIT FUND

The PRIT Fund

The Pension Reserves Investment Trust (PRIT) Fund is a pooled investment fund for the purpose of investing contributions from Massachusetts state and municipal retirement systems to meet their future pension liabilities. PRIT was created in 1983 by the Legislature as a trust to employ an appropriately prudent investment strategy for the purpose of reducing the Commonwealth's significant unfunded pension liability. The Pension Reserves Investment Management (PRIM) Board is charged with the general supervision of the PRIT Fund.

PRIT consists of two funds, the Capital Fund and the Cash Fund. Cash deposits, generally in the form of employee contributions or appropriations, are deposited and invested on a temporary basis to meet the present liabilities of the member retirement systems. Retirement systems may withdraw funds on a regular or as-needed basis to cover pension obligations or operating expenses. Cash is transferred on a monthly basis from the Cash Fund to the Capital Fund in which funds are invested and reinvested under long-term investment guidelines.

A municipal retirement system may participate in the PRIT Fund by transferring all of its assets to PRIT. Participation means that the local retirement system has entrusted the PRIM Board with making all its investment decisions and managing the system's assets. Participation means that a system may take advantage of PRIT's diversified investment policies, expanding its opportunities to private investments and to international markets. In addition, a local retirement system may allocate a certain amount of its assets to the Fund, thus retaining control over a portion of its assets while also taking advantage of higher expected returns for those assets administered by the PRIM Board.

The PRIM Board

The Pension Reserves Investment Management (PRIM) Board is authorized and required to act as Trustees for each retirement system which participates in the PRIT Fund. They are responsible for the exclusive control and

management of the Fund. The Board's overall investment goal is to increase the assets of the Fund by employing a higher-earnings investment strategy to stabilize and ultimately reduce the Commonwealth's future pension payment obligations.

There are nine Board members. The Treasurer and Receiver-General of the Commonwealth presides as Chairman. The Governor or his designee is also a member of the Board. Other members include appointees of both the Governor and Treasurer, and two elected members. ♦

PRIM Board of Trustees

Joseph D. Malone, Chairman
State Treasurer and Receiver-General, Ex Officio Member

John J. McGlynn, Vice Chairman
Commissioner, Division of Public Employee Retirement Administration,
Ex Officio Member

James B.G. Hearty, Designee of the Governor, the Honorable William F. Weld
Senior Vice President, Lehman Brothers, Ex Officio Member

Daniel O'Neil, Appointee of the Governor
President, Massachusetts Correction Officers Federated Union

Joseph DeLorey, Appointee of the Treasurer
Treasurer, National Association of Government Employees

Gregory A. White, Appointee of the Governor
Vice President, UNC Partners, Inc.

Glenn Johnson, Appointee of the Treasurer
President, J.M. Johnson Associates

Robert Brousseau, Elected Member of the State Teachers Retirement System
Teacher, Wareham High School

Ralph White, Elected Member of the State Employees Retirement System
President, Retired State, County and Municipal Employees Association of Massachusetts

The elected and appointed members from state, county and municipal organizations provide employees with representative participation in the formulation of investment policies affecting the Fund. All members participate in the investment management of the PRIT Fund. The Governor must appoint a public safety representative and a private citizen. The Treasurer must appoint a representative of a union which represents non-public safety municipal and state employees and a private citizen who is experienced in investment or financial management. State and teachers employees each elect a member who serve for three years. Appointed members serve for four years. All members serve without compensation.

Almost two years ago, the PRIM Board established advisory committees to provide a broader range of input to the Board on an informal basis. These committees are generally comprised of two or three Board members, a member from either a Participating or Purchasing System, and private citizens from the investment/business community. ♦

Committees of the PRIM Board

ADMINISTRATIVE COMMITTEE AND AUDIT COMMITTEE

Robert Brousseau, Chairman-Board Member

John J. McGlynn, Board Member

Joseph DeLorey, Board Member

Alan J. Factor, President, Factor Management, Inc.

Richard Foley, Town Accountant, Town of Reading (Audit Committee only)

INVESTMENT COMMITTEE

Ralph White, Chairman- Board Member

Daniel J. O'Neil, Board Member

Gregory A. White, Board Member

Joseph P. Craven, Deputy Treasurer & General Counsel, State Treasury

Robert Hall, Treasurer, Norfolk County Retirement Board

John H. Bowie, Jr., Vice President-Investments, A.G. Edwards

Robert Higgins, Managing General Partner, Highland Capital Partners

REAL ESTATE COMMITTEE

James B.G. Hearty, Chairman- Board Member

Glenn Johnson, Board Member

Thomas H. Trimarco, First Deputy Treasurer, State Treasury

John Quincy, President, Quincy & Associates

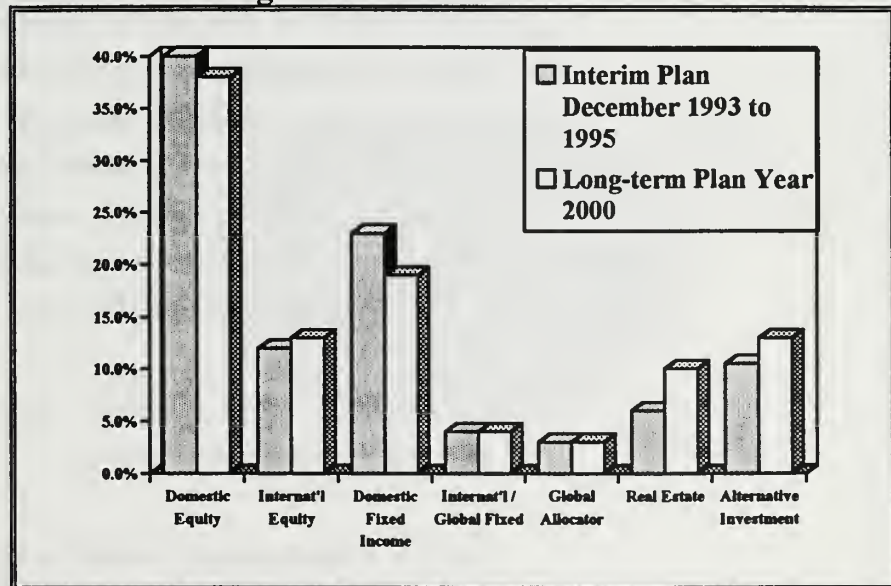
ASSET ALLOCATION AND INVESTMENT STRATEGIES

Asset Allocation

Asset allocation is the percentage weighting of various types of assets in an investment portfolio. PRIT's portfolio is constructed to take into account the expected returns and risk of various asset classes. Those major asset classes are: domestic equity, international/global equity, domestic fixed income, international fixed income, real estate, venture capital, and private equity and debt. PRIT's asset allocation plan is designed to maximize the return on investment within acceptable levels of risk appropriate for a public fund.

The PRIM Board maintains two asset allocation plans for PRIT: an *Interim Asset Allocation Plan* and a *Long-term Asset Allocation Plan*. The Interim, or short-term plan, is used to better define tactical strategies within each asset class during a 12 to 18 month period and to regularly assess and adjust, if necessary, targets which may have been impacted by changing market values.

Interim and Long-term Asset Allocation Plans



The Long-term Plan is directed at a 5- to 10- year time frame. Its percentage weighting in domestic equities is proportionately greater than those of other asset classes. Because these equities offer high, expected long-term rates of return versus other traditional asset classes, they are the lead investment as

part of the Board's investment strategy aimed at reducing long-term pension liabilities.

Investment Strategies

It shall be the mission of the PRIT Fund to maximize the return on investment within acceptable levels of risk appropriate for a public fund with an investment horizon of approximately 35 years, always acting with its participant members' and beneficiaries' financial well being utmost in mind. ♦

PRIM's investment objective is based on reducing the significant unfunded pension liability of the Commonwealth. As of calendar year end 1992, the Unfunded Actuarial Liability was estimated at \$8.4 billion.

PRIT's investment strategy is structured to realize a higher level of return from its investments, than would generally be in place for a more fully-funded plan, for the purpose of reducing the Unfunded Actuarial Liability. Among a balanced range of other types of investments, the PRIT Fund consists of higher return equities and alternative investments. These types of investments have the potential, through earnings, to help reduce future state appropriations and alleviate the higher tax burden for pension benefits on the Commonwealth's taxpayers. To diversify the Fund and reduce risk, PRIM invests in other asset classes, such as fixed income securities and real estate.

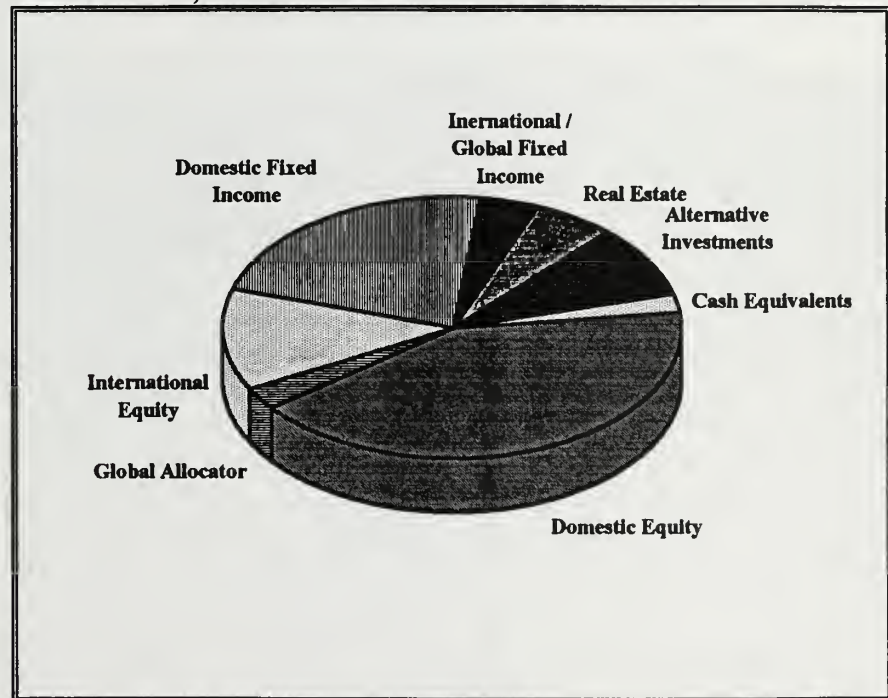
The investment horizon is long-term with a target rate of return of 10.25%, annualized (a 6% real rate of return).

PRIT's investment strategy is applied in the context of an overall Investment Policy. The Policy is a comprehensive working document which guides various processes and defines objectives. It encompasses a wide range of investment matters, from how investment managers are selected and utilized to how currency management issues are addressed. ♦

Composition of the PRIT Fund

<i>Domestic Equity</i>	41.4%
<i>International Equity</i>	12.4%
<i>Global Allocator</i>	2.9%
<i>Domestic Fixed Income</i>	22.3%
<i>International/ Global Fixed Income</i>	4.1%
<i>Real Estate</i>	5.7%
<i>Alternative Investments</i>	8.9%
<i>Cash Equivalents</i>	2.4%

**Composition of the PRIT Fund
as of June 30, 1993**



The net asset value of the PRIT Fund was \$3.87 billion as of June 30, 1993. ♦

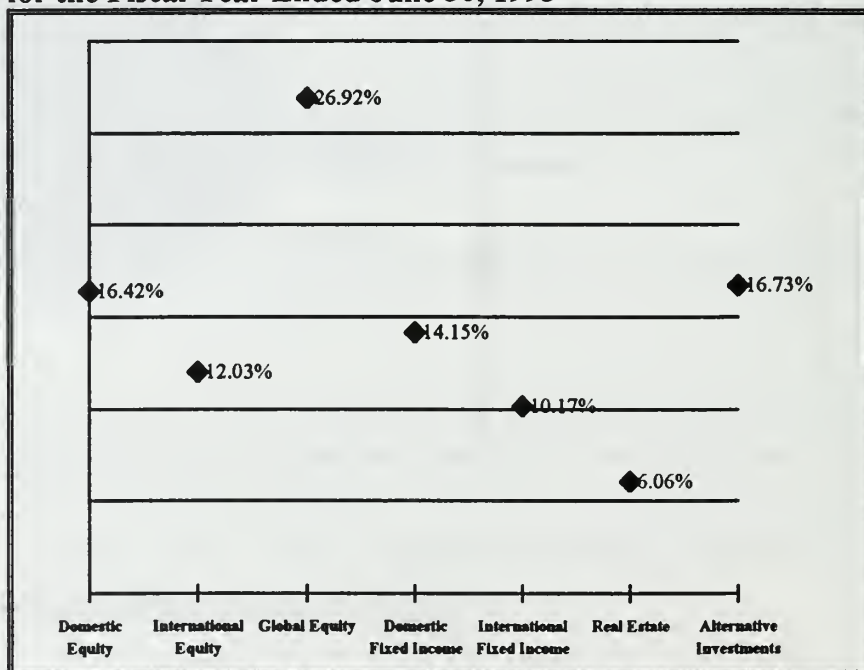
PRIT FUND PERFORMANCE AND INVESTMENT MANAGERS

Fiscal 1993 Performance

For Fiscal 1993, the Fund's gross rate of return was 14.48% overall. Since inception of the Fund and through June 30th, PRIT's annualized rate of return was 11.36%. Fiscal Year 1993 performance in each of the classes showed good returns across all categories: ♦

<i>Domestic Equity</i>	16.42%
<i>International Equity</i>	12.03%
<i>Global Equity</i>	26.92%
<i>Domestic Fixed Income</i>	14.15%
<i>International Fixed Income</i>	10.17%
<i>Real Estate</i>	6.06%
<i>Alternative Investments</i>	16.73%

PRIT Fund Summary Asset Class Performance for the Fiscal Year Ended June 30, 1993



Investment Managers

The PRIM Board oversees the management of the PRIT Fund and exercises its authority to employ outside managers for PRIT Fund investments. For Fiscal 1993, short-term cash equivalents were managed by the Fund Custodian through PRIM. Nineteen investment managers oversee the Domestic and International equity portfolios and ten directly manage for the Domestic and International Fixed Income portfolios. The real estate portfolio has 11 managers. PRIT participates in 32 Domestic and International Venture Capital and Special Equity Partnerships as of June 30, 1993.

Manager fees for the Fiscal Year are highly competitive. PRIT achieved its goal of operating the overall Fund at a cost of one-half of one percent of total assets. For example, fees for the equity and fixed income portfolios, as a weighted average, were approximately .12% for domestic equities, .27% for international equity, .26% for domestic and specialty fixed income, and .25% for international fixed income.

PRIT Fund Investment Managers as of June 30, 1993

Domestic and International Equity Managers

Alliance Capital Management L.P., New York
 Babson-Stewart-Ivory International, Edinburgh
 Bankers Trust Co., New York
 Batterymarch Financial Management, Boston
 Bear, Stearns Asset Management, New York
 Brown Capital Management, Inc., Baltimore
 Capital Guardian Trust Company, Los Angeles
 Cursitor Eaton Asset Management (TCW), London
 Emerging Markets Management, Washington, D.C.
 Fidelity Management Trust Company, Boston
 Kennedy Capital Management, Inc., St. Louis
 Massachusetts Financial Services Company, Boston
 PanAgora Asset Management, Boston
 Putnam Advisory Co., Boston
 Rumbline Advisers, Boston
 Scudder, Stevens & Clark, Inc., New York
 U.S. Trust Co., Boston
 ValueQuest, Ltd., Marblehead, MA

Domestic and International Fixed Income Managers

Bankers Trust Company, New York
 Baring International Investment, Ltd., London

Domestic and International Fixed Income Managers, cont.

Fidelity Management Trust Company, Boston
W.R. Huff Asset Management Company, Morristown, N.J.
Massachusetts Financial Services, Boston
Pacific Investment Management Co., Newport Beach, CA
Putnam Advisory Co., Boston
Rothschild International Asset Management, Ltd., London
Standish, Ayer & Wood, Inc., Boston
TCW Asset Management, Los Angeles

Domestic Real Estate Managers

Aldrich, Eastman & Waltch, Inc. Boston
Bear Stearns Realty Partners, New York
Boston Financial Group, Inc. Boston
Copley Real Estate Advisors, Inc., Boston
Hancock Realty Investors, Inc., Boston
Heitman Advisory Corp., Chicago
Invesco Realty Advisors, Inc., Dallas
JMB Institutional Advisors, Chicago
Massachusetts Mutual Life Insurance Co., Springfield, MA
TA Realty Associates, Boston
TCW Realty Advisors, Los Angeles

Domestic and International Venture Capital and Special Equity Partnerships

Advent International, Boston
Arral Pacific Management, Ltd., Hong Kong
Alan Patricof Associates Ltd., New York
Belmont Capital Partners II Fund, Boston
Wm. Blair Mezzanine Capital Management, Chicago
Boston Ventures Management Inc., Boston
Capital Resource Lenders, Boston
Commonwealth Bioventures, Inc., Worcester, MA
Davis Venture Partners, Tulsa
Donaldson, Lufkin & Jenrette Merchant Banking Partners, NY
1818 Fund, Brown Brothers Harriman & Co., New York
Equitable Capital Management Corp., New York
Forstmann Little & Co., New York
Freeman Spogli Equity Partners, Los Angeles
Golder, Thoma and Cressey, Chicago
Hancock Venture Capital Management, Inc., Boston
Invexco, Inc., Houston
Joseph Littlejohn & Levy Fund, New York
Kohlberg, Kravis & Roberts and Co., New York
Landmark Equity Partners, New York
Madison Group, L.P., Westport, Conn.
Massachusetts Technology Development Corp., Boston
Morgan Holland Partners, Boston
Nash, Sells & Partners, Ltd., London
Schroder UK Buyout Fund, London

**Domestic and International Venture Capital and
Special Equity Partnerships, cont.**
Smith Offshore Exploration Co., Houston
Southern California Ventures, Sherman Oaks, CA
TA Associates, Boston
Thomas H. Lee Equity Partners, L.P., Boston
Venture Capital Fund of New England, Boston
Vista Partners, New Canaan, Conn.

Outside Advisors

In addition to utilizing investment managers, the PRIM Board relies on outside advisors to assist in the monitoring of existing investments and the evaluation of new opportunities. Consultants are engaged for their particular expertise and retained to assist the Board and its staff in the areas of General Portfolio Strategy and Investments, Real Estate and Private Markets. The Board retains outside legal counsel to cover a broad variety of investment-related matters. Certified public accountants are retained for the purposes of completing the annual audit. The Fund's custodian is responsible for providing all record-keeping and analytic performance valuations for the Fund. ♦

Outside Advisors as of June 30, 1993

CUSTODIAN

State Street Bank & Trust Company, Boston

FUND ADVISORS

Private Markets:

Lewis, Bailey Associates, Inc., Boston

Real Estate:

Boston Financial Group, Boston

Morris and Morse Company, Inc., Boston

General Investments/Strategy:

Wilshire Associates, Inc., Santa Monica, CA

LEGAL COUNSEL

Goodwin, Procter & Hoar, Boston

Murphy, Hesse, Toomey & Lehane, Quincy, MA

INDEPENDENT AUDITORS

Ernst & Young, Boston

MEMBER STATE AND MUNICIPAL RETIREMENT SYSTEMS

A governmental retirement system within the Commonwealth may elect to participate by vote of its board to join the PRIT Fund. The board may choose to transfer all of the system's assets (a *Participating System*) or some of the system's assets (a *Purchasing System*) to the Fund. The PRIM Board provides investment management services to these retirement boards. The boards are able to rely on the expertise of the Fund's managers and outside advisors.

By joining PRIT, the boards share in the benefits of PRIT's professional portfolio structure. The retirement system has a wide variety of investment opportunities, including PRIT's expanding international/global market investments. Private investments, such as special equity and venture capital, also provide attractive opportunities. These private market investments are available to a system which otherwise may have insufficient assets, on its own, to invest in these more specialized investments.

The fees for PRIT are extremely competitive for the type of diversified portfolio and sophisticated asset management program which PRIT offers to municipal retirement systems. A smaller retirement system, for example, has the opportunity to combine its assets with other systems and the large state reserve funds. This allows the retirement system to take advantage of PRIT's ability to negotiate more favorable fees for investment management services.

These favorable fees are, in turn, shared among all systems based on the systems proportionate assets. A system can realize economies of scale for fees, because they are dispersed across a wider spectrum. ♦

**Member State and Municipal Retirement Systems
in the PRIT Fund**

Belmont Retirement Board*
Berkshire County Retirement Board*
Brookline Retirement Board*
Concord Retirement Board*
Dedham Retirement Board
Fairhaven Retirement Board
Framingham Retirement Board*
Gardner Retirement Board
Greenfield Retirement Board*
Hingham Retirement Board
Lowell Retirement Board*
Massachusetts Water Resources Authority
Retirement Board*
Milton Retirement Board
Minuteman Regional Vocational Technical School
Retirement Board
Montague Retirement Board
Needham Retirement Board
New Bedford Retirement Board*
Norfolk County Retirement Board*
Northbridge Retirement Board
Quincy Retirement Board*
Reading Retirement Board
Saugus Retirement Board
Wakefield Retirement Board
Weymouth Retirement Board

State Employees Retirement Board

State Teachers Retirement Board

Participation provided under Chapter 32, Section 22(8)(a) of the Massachusetts General Laws

*Purchasing System

CHAPTER 32, SECTION 22(8) OF THE MASSACHUSETTS GENERAL LAWS ESTABLISHES THE PRIT FUND. THE FUND IS ADMINISTERED BY THE PRIM BOARD WHICH IS ESTABLISHED UNDER CHAPTER 32, SECTION 23(2A) OF THE MASSACHUSETTS GENERAL LAWS. IN ADDITION, THE BOARD OVERSEES THE FUND UNDER THE TERMS OF ITS OPERATING TRUST DATED JULY 15, 1988.

THE PRIM BOARD IS AN AUTHORITY OF THE COMMONWEALTH OF MASSACHUSETTS. ITS OFFICES ARE LOCATED IN BOSTON, MASSACHUSETTS.

ALL CORRESPONDENCE MAY BE DIRECTED TO:
PENSION RESERVES INVESTMENT MANAGEMENT BOARD
200 STATE STREET, 13TH FLOOR
BOSTON, MA 02109

TELEPHONE: (617) 439-4600
FACSIMILE: (617) 439-6989

AUDITED FINANCIAL STATEMENTS AND SCHEDULE

PENSION RESERVES INVESTMENT TRUST FUND
AUDITED FINANCIAL STATEMENTS AND SCHEDULE ◆

YEARS ENDED JUNE 30, 1993 AND 1992 ◆
WITH REPORT OF INDEPENDENT AUDITORS

AUDITED FINANCIAL STATEMENTS AND SCHEDULE

Contents

REPORT OF INDEPENDENT AUDITORS.....21

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF ASSETS AND LIABILITIES.....22

STATEMENTS OF OPERATIONS23

STATEMENTS OF CHANGES IN NET ASSETS.....24

NOTES TO FINANCIAL STATEMENTS.....25

SCHEDULE OF INVESTMENTS.....30

REPORT OF INDEPENDENT AUDITORS

**Pension Reserves Investment Management Board
and Member Systems of the Pension Reserves
Investment Trust Fund:**

We have audited the accompanying statements of assets and liabilities of the Pension Reserves Investment Trust Fund, including the schedule of investments, as of June 30, 1993 and 1992, and the related statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and schedule referred to above present fairly, in all material respects, the financial position of the Pension Reserves Investment Trust Fund at June 30, 1993 and 1992, and the results of its operations and the changes in its net assets for the year then ended in conformity with generally accepted accounting principles.

As explained in Note 2, the financial statements include real estate and alternative investments valued at \$588,502,887 and \$516,786,050 at June 30, 1993 and 1992 respectively representing approximately 15% of net assets, whose values have been estimated by the Pension Reserves Investment Management Board, with input from real estate and alternative investment managers and other advisers, in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board in arriving at its estimate of value of such investments and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Ernst + Young

**Boston, Massachusetts
August 30, 1993**

PRIT FUND

STATEMENTS OF ASSETS AND LIABILITIES
JUNE 30, 1993
WITH COMPARATIVE TOTALS AS OF JUNE 30, 1992

	<u>CASH FUND</u>	<u>CAPITAL FUND</u>	<u>1993</u>	<u>TOTAL</u> <u>1992</u>
ASSETS				
Investments at market value				
(Cost of \$3,618,287,930 and \$3,209,525,127 at				
June 30, 1993 and 1992, respectively) (Note 2):				
Equities		\$1,826,867,119	\$1,826,867,119	\$1,298,043,401
Fixed-income investments		468,779,563	468,779,563	255,409,989
U.S. government agency and treasury				
obligations and other		291,446,658	291,446,658	487,404,008
Money market investments	\$5,267,713	217,641,964	222,909,677	245,325,982
Real estate		252,109,838	252,109,838	232,563,243
Alternative investments		336,393,049	336,393,049	284,222,807
International investments		531,301,238	531,301,238	514,977,909
TOTAL INVESTMENTS	\$5,267,713	\$3,924,539,429	\$3,929,807,142	\$3,317,947,339
Cash		6,823,125	6,823,125	35,321,853
Dividends and interest receivable	11,169	21,192,652	21,203,821	21,966,994
Receivable for investments sold		29,489,624	29,489,624	91,235,843
Other assets		44,593	44,593	60,464
TOTAL ASSETS	\$5,278,882	\$3,982,089,423	\$3,987,368,305	\$3,466,532,493
LIABILITIES				
Management fees payable (Note 3)		\$2,862,322	\$2,862,322	\$2,076,954
Payable for investments purchased		73,226,950	73,226,950	74,918,298
Other liabilities	\$79,755	4,108,147	4,187,902	141,634
Notes payable (Note 4)		29,725,918	29,725,918	29,910,300
TOTAL LIABILITIES	\$79,755	\$109,923,337	\$110,003,092	\$107,047,186
Commitments and contingencies (Note 6)				
NET ASSETS:				
Fund units (Notes 1, 2 & 10)	5,199,127	3,560,646,874	3,565,846,001	3,251,063,095
Net unrealized gain on				
investments		311,519,212	311,519,212	108,422,212
TOTAL NET ASSETS (Note 10)	\$5,199,127	\$3,872,166,086	\$3,877,365,213	\$3,359,485,307

SEE ACCOMPANYING NOTES.

STATEMENTS OF OPERATIONS
YEAR ENDED JUNE 30, 1993
WITH COMPARATIVE TOTALS FOR 1992

	<u>CASH FUND</u>	<u>CAPITAL FUND</u>	<u>1993</u>	<u>TOTAL</u> <u>1992</u>
INVESTMENT INCOME:				
Interest	\$412,612	\$ 81,394,895	\$ 81,807,507	\$ 68,872,499
Dividends		39,556,033	39,556,033	43,086,320
Real estate income		16,216,483	16,216,483	18,688,432
Alternative investment income		3,743,122	3,743,122	18,014,238
Security lending income (Note 7)		838,371	838,371	732,422
TOTAL INVESTMENT INCOME	\$412,612	\$141,748,904	\$142,161,516	\$149,393,911
Less:				
Management fees (Note 3)		19,623,329	19,623,329	19,780,357
Interest expense		2,128,882	2,128,882	2,441,614
Other				1,233,273
NET INVESTMENT INCOME	\$412,612	\$119,996,693	\$120,409,305	\$125,938,667
Realized gain on investments		135,347,326	135,347,326	93,101,483
Increase in unrealized gain on investments		203,097,000	203,097,000	41,157,813
NET GAIN ON INVESTMENTS		\$338,444,326	\$338,444,326	\$134,259,296
TOTAL	\$412,612	\$458,441,019	\$458,853,631	\$260,197,963

SEE ACCOMPANYING NOTES.

PRIT FUND

STATEMENTS OF CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 1993 WITH COMPARATIVE TOTALS FOR 1992
--

	CASH FUND	CAPITAL FUND	1993	TOTAL 1992
OPERATING ACTIVITIES				
Net investment income	\$ 412,612	\$ 119,996,693	\$ 120,409,305	\$ 125,938,667
Realized gain on investments		135,347,326	135,347,326	93,101,483
Increase in unrealized gain on investments		203,097,000	203,097,000	41,157,813
Increase in net assets resulting from operations	\$412,612	\$458,441,019	\$458,853,631	\$260,197,963
State appropriations				272,304
Total increase in net assets	\$412,612	\$458,441,019	\$458,853,631	\$260,470,267
DISTRIBUTION TO MEMBER SYSTEMS:				
Net investment income	(412,612)	(119,996,693)	(120,409,305)	(125,938,667)
Realized gain on investments		(135,347,326)	(135,347,326)	(93,101,483)
State appropriations				(272,304)
Total distributions to member systems	\$(412,612)	\$(255,344,019)	\$(255,756,631)	\$(219,312,454)
FUND UNIT TRANSACTIONS:				
System contributions	135,968,458	105,029,600	240,998,058	133,557,873
Net asset value of units issued to member systems in reinvestment of net investment income, realized gain and state appropriations	412,612	255,344,019	255,756,631	219,312,454
Full system redemptions		60,836,150	60,836,150	6,200,000
Partial system redemptions	86,875,227	34,260,406	121,135,633	61,864,663
Interfund transfers	(46,980,422)	46,980,422		
NET ASSETS PROVIDED BY FUND UNIT TRANSACTIONS	\$2,525,421	\$312,257,485	\$314,782,906	\$284,805,664
INCREASE IN NET ASSETS	\$2,525,421	\$515,354,485	\$517,879,906	\$325,963,477
NET ASSETS AT BEGINNING OF YEAR	2,673,706	3,356,811,601	3,359,485,307	3,033,521,830
NET ASSETS AT END OF YEAR	\$ 5,199,127	\$3,872,166,086	\$3,877,365,213	\$3,359,485,307

SEE ACCOMPANYING NOTES.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1993

1. DESCRIPTION OF THE PENSION RESERVES INVESTMENT TRUST FUND

The Pension Reserves Investment Trust Fund (PRIT) was created in 1984 by the Commonwealth of Massachusetts through legislation (Chapter 661 of the Acts of 1983, as amended by the Acts of 1987) and is the investment portfolio for the assets of member state and local retirement systems. The Pension Reserves Investment Management Board (the Board) was created by the same legislation to manage PRIT.

Systems joining PRIT have the option to be Participating or Purchasing Systems. The Participating Systems include the State Employees' and the State Teachers' Retirement Systems. The remaining Participating and Purchasing systems are Massachusetts authorities, counties, cities and towns. Participating Systems other than the State Employees' and State Teachers' Retirement Systems must transfer all of their retirement system assets to PRIT. Purchasing Systems may allocate a certain amount of their assets to the Fund, thus retaining control over a portion of their assets and having the ability to contribute and withdraw funds at their discretion. Purchasing Systems and Participating Systems share in the investment earnings of PRIT based on their proportionate share of net assets (see Note 2). During fiscal year 1993, two Participating and four Purchasing Systems left PRIT and one System changed from a Participating to a Purchasing System. As of June 30, 1993, there were 15 Participating Systems and 11 Purchasing Systems.

Pursuant to the terms of the enabling legislation, any balance remaining in the investment income accounts of the State Employees' and State Teachers' Retirement Systems shall be transferred to PRIT. Each system, once it has completed its annual report, is required to transfer these funds, known as "excess earnings," to PRIT on an annual basis. The State Employees' Retirement System is current in its excess earning payments to PRIT. As of June 30, 1993, the State Teachers' Retirement System is in arrears for calendar years 1989-1992. Payment for calendar year 1989 is anticipated within fiscal 1994, with subsequent years expected to follow.

PRIT consists of two funds, the Capital Fund and the Cash Fund. The Capital Fund serves as the long-term asset portfolio. The portfolio asset allocation plan includes equities, bonds, money market investments, international investments, real estate and other alternative investments. The Cash Fund consists of short-term investments which are used to meet the liquidity requirements of the various Participating and Purchasing Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Valuation of Investments

Security transactions are recorded on the trade date of the securities purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a member system, the market value of the securities on the transfer date. The Capital Fund is valued at month end, while the Cash Fund is valued daily.

Investments in bonds and U.S. government agency and treasury obligations are valued by an independent pricing service. In determining the price, the service reflects such factors as security prices, yields, maturities and ratings, supplemented by dealer quotations. Money market and other short-term investments, both domestic and international, are recorded using the amortized cost method, which approximates market value. Domestic and international investments in equity securities traded on national securities exchanges are valued at the last sale price or, if no sale price is available, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter bid prices. Investments in real estate are valued by the Board, with input from the real estate managers and other advisers, at estimated values as of June 30, 1993. Alternative investments include venture capital, leveraged buy outs, private placements and other

PRIT FUND

investments where the structure, risk profile and return potential differ from traditional equity and fixed income investments. These investments are also included in the balance sheets at estimated values determined by the Board with input from the alternative investment managers.

Dividend income is recorded on the ex-dividend date and interest income is recorded when earned.

Concentrations of credit risk exist if a number of companies in which the Fund has invested are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate its exposure to concentrations of credit risk, PRIT invests in a variety of industries located in diverse geographic areas.

Gains and losses from sales of investments are calculated on the average cost method.

Unrealized net currency gains and losses from valuing foreign currency-denominated assets and liabilities at period-end exchange rates are reflected as a component of net increase (decrease) in unrealized gain on investments. For financial reporting purposes, it is not practicable to isolate that portion of the results of operations arising as a result of changes in foreign exchange rates from the fluctuations arising from changes in the market price of securities during the period.

Fund Units

Capital Fund

The number of units resulting from the initial transfer of a retirement system's assets to PRIT or from the subsequent sales or repurchases of units is calculated by dividing the market value of the assets involved by the unit price at the end of the month.

Net investment income and net realized gains are reinvested in units at the end of each month as follows:

- Net investment income and net realized gains for the month are allocated among the Systems, based on their proportionate share of the net assets at the beginning of the month.
- The allocated portions are then divided by the beginning-of-the month unit price, adjusted for the change in unrealized appreciation (depreciation) of investments during the current month, to determine each system's incremental number of units.
- If the Capital Fund incurs net realized losses, the losses are allocated among the Systems using the same method as for gains, thereby reducing the number of units held by each system.

Cash Fund

Sales and repurchases of units by the Systems are recorded in the Cash Fund on the trade date at the Fund's daily price of \$1.00 per unit. Net investment income is allocated daily among the Systems based on their proportionate share of net assets and is reinvested in units at month end.

3. MANAGEMENT FEES

In accordance with the Board's operating trust, all expenses incurred by the Board in managing PRIT are charged to PRIT in the form of management fees. These expenses consist of investment manager, advisory, custodian and other professional fees, salaries and other operating expenses of the Board.

Investment Managers

Investment management fees are paid to all of the Board's discretionary external managers pursuant to written contracts. The fees for equity and fixed-income managers are calculated and paid on a quarterly basis. In most cases, equity managers are paid on a "performance fee" basis. A "performance fee" is characterized by a low base fee, with an incremental fee paid on a quarterly basis in the event a manager outperforms the contractual benchmark. Fixed-income managers are generally paid on an asset-based fee basis with no performance component.

Real estate management fees are structured differently. The "open" and "closed-end" funds charge fees that are based on net asset value. The separate account relationships which PRIT has negotiated are typified by a base fee during the holding period of the investment, with a performance fee component paid when the original investment is terminated or otherwise restructured.

Alternative investment managers generally charge fees during the investment holding period based on total assets committed. Fees are payable commencing on the date that the partnership closes.

Investment manager fees totaled approximately \$16,900,000 and \$16,059,000 for the years ended June 30, 1993 and 1992, respectively.

Investment Advisors

Wilshire Associates and other consultants serve as the Board's pension investment advisors. These consultants provide the Board with comprehensive pension investment advisory services, including recommendations on asset allocations, selection of investment managers, and measurement of external and internal performance of PRIT and the individual investment managers.

As compensation for their services, these consultants received fees of approximately \$330,000 and \$400,000 for the years ended June 30, 1993 and 1992, respectively.

Custodian

State Street Bank and Trust Company (State Street) is the PRIT investment custodian and record keeper. State Street records all daily transactions for PRIT, including investment sales and purchases, investment income, expenses incurred by PRIT and all fund unit activity for the PRIT member systems. State Street also provides portfolio performance analysis. The PRIT Board entered into a three-year contract with State Street for custody services, effective April 1, 1993. The contract calls for a flat fee. Prior to this contract, State Street was paid an annual asset fee based on the market value of the PRIT Fund.

State Street's compensation totaled approximately \$1,380,000 and \$1,919,000 for the years ended June 30, 1993 and 1992, respectively.

Other Fees

The remaining management fees, approximating \$1,013,000 and \$1,402,000 for the years ended June 30, 1993 and 1992, respectively, were reimbursements of the Board's operating expenses, including employee compensation, professional fees and occupancy costs.

PRIT FUND

4. NOTES PAYABLE

Notes payable, consisting of variable and fixed rate notes, are summarized as follows:

	<u>1993</u>	<u>1992</u>
• 10 % mortgage secured by interest in certain property owned by the Fund, payable in monthly installments of \$144,000 through August 1, 2006.	\$14,725,918	\$14,910,300
• Note secured by interest in a certain partnership owned by the Fund, maturing August 31, 1994 and bearing interest at a rate of LIBOR plus .65%. The LIBOR rates in effect at June 30, 1993 and 1992, respectively, were 3.4% and 3.9%.	<u>15,000,000</u>	<u>15,000,000</u>
TOTAL NOTES PAYABLE	<u>\$29,725,918</u>	<u>\$29,910,300</u>

The fair values of these notes have not been separately determined, but, rather, the notes have been considered in determining the values of the underlying real estate investments to which they relate.

Principal payments required under these notes are as follows:

1994	\$ 332,354
1995	15,299,621
1996	327,054
1997	365,242
1998	403,487
Thereafter	<u>12,998,160</u>
	<u>\$29,725,918</u>

5. PURCHASES AND SALES OF INVESTMENTS

During the year ended June 30, 1993, the cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were \$6,461,359,610 and \$5,883,992,054, respectively. During the year ended June 30, 1992, the cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were \$3,843,250,627 and \$3,680,022,524, respectively.

6. COMMITMENTS AND CONTINGENCIES

As of June 30, 1993, PRIT had outstanding commitments to invest \$61 million in real estate, \$45 million in venture capital and \$181 million in special equity investments. The fair value of the commitments approximate their stated value.

7. SECURITY LENDING PROGRAM

PRIT participates in State Street's security lending program. Under this program, PRIT receives a fee for allowing brokerage firms to borrow from PRIT certain securities for a predetermined period of time, securing such loans with cash collateral typically equaling 102% of the market value of the security borrowed on domestic securities and 105% on international securities. All collateral is held by State Street. At June 30, 1993 and 1992, the market value of the securities on loan was approximately \$181 million and \$65 million, respectively, for equities and \$136 million and \$32 million, respectively, for fixed-income investments and U.S. government agency and treasury obligations. These securities are included in investments at market value as of June 30, 1993 in the accompanying balance sheet.

8. STATE APPROPRIATIONS

To attract municipal retirement systems to join PRIT at its inception in 1984, the Commonwealth of Massachusetts (the State) agreed to reimburse the retirement systems for the unrealized losses in their investment portfolios at the date they transferred their assets to PRIT. In 1992, \$272,304 was contributed by the State and was distributed to the six eligible retirement systems that joined PRIT on or before July 1, 1986. PRIT anticipates that it will receive a contribution for this purpose for Fiscal 1993, but had not received the contribution as of June 30, 1993.

9. FORWARD CONTRACTS AND OTHER FINANCIAL INVESTMENTS WITH OFF-BALANCE SHEET RISK

PRIT enters into forward exchange currency contracts to hedge its exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. A foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the close is included in net realized gains on investments. Risks may arise from the potential inability of a counter party to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The following table identifies the gross foreign currency contract amounts at market value as of June 30, 1993:

	Market Value at June 30 1993	Net Unrealized and Realized Gain (Loss)
FORWARD CONTRACTS TO:		
Purchase foreign currency	\$ 149,641,000	\$(3,700,255)
Sell foreign currency	215,730,000	7,153,658

PRIT is also engaged in selling or "writing" options. As a writer of options, PRIT receives a premium at the outset and then bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Written options are carried at market value and are classified as a liability of the fund. The gain or loss arising from the difference between the premiums received and the market value of the option at June 30, 1993 is included in net gain on investments. At June 30, 1993, the market value of options written was \$1.3 million.

10. FUND UNITS

Capital Fund units outstanding at June 30, 1993 and 1992 were 3,110,780,744 and 2,877,292,334, respectively. Cash Fund units outstanding at June 30, 1993 and 1992 were 5,199,127 and 2,673,706, respectively. Total net assets as of June 30, 1993 and 1992 are equivalent to \$1.25 and \$1.17 per Capital Fund unit, respectively, and \$1.00 per Cash Fund unit.

PRIT FUND

PRIT
SCHEDULE OF INVESTMENTS
June 30, 1993
DOMESTIC INVESTMENTS ♦

SHARES/PAR VALUE	DESCRIPTION	COST	MARKET VALUE
♦ EQUITIES			
2,178,317	Basic industries	\$56,879,025	\$63,977,282
2,039,877	Capital goods	52,479,767	75,651,573
8,153,222	Consumer basics	190,840,077	249,627,040
1,425,752	Consumer durable goods	38,676,821	51,464,906
4,720,671	Consumer nondurable goods	100,433,590	140,549,873
1,693,373	Consumer services	33,866,748	48,356,252
2,448,040	Energy	92,431,832	111,145,739
15,998,142	Finance	292,629,672	373,467,093
2,596,057	General business	60,060,731	74,151,820
524,506	Shelter	14,353,280	19,684,636
4,421,605	Technology	123,938,440	149,420,308
465,692	Transportation	13,273,655	20,995,672
4,621,743	Utilities	123,234,810	189,224,010
32,393,869	Miscellaneous	230,091,106	259,150,915
	TOTAL EQUITIES	\$1,423,189,554	\$1,826,867,119

♦ FIXED-INCOME INVESTMENTS

Corporate Bonds:			
80,657,019	Financing and Banking with rates ranging from 4.25% to 18.5% and maturities ranging from 1993 to 2016.	\$80,082,359	\$82,908,390
71,366,899	Industrials with variable and fixed rates ranging from 5.875% to 18% and maturities ranging from 1995 to 2021.	67,150,429	72,846,422
22,983,000	Utilities with fixed and variable rates ranging from 4.23% to 14.5% and maturities ranging from 1993 to 2026.	22,718,228	23,177,813
9,010,000	Transportation with rates ranging from 5% to 12.875% and maturities from 1994 to 2003.	9,489,673	9,526,515

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1993

SHARES/PAR VALUE	DESCRIPTION	COST	MARKET VALUE
99,224,511	Miscellaneous/other with rates ranging from 5% to 16.75% and maturities from 1993 to 2023.	<u>\$80,072,005</u>	<u>\$84,916,725</u>
	TOTAL CORPORATE BONDS	<u>\$259,512,694</u>	<u>\$273,375,865</u>
13,209,592	Asset-backed securities with rates ranging from 6% to 8.75% and maturities from 1994 to 2000.	\$14,073,188	\$14,342,750
54,170,000	Convertible Bonds with rates ranging from 2% to 9.37% and maturities from 1995 to 2015.	39,909,344	42,528,460
56,470,788	Collateralized Mortgage Obligations with rates ranging from 5.15% to 11.5% and maturities from 1999 to 2032.	57,026,230	59,424,415
76,839,836	Other Marketable Mortgage obligations with rates ranging from 8.75% to 21% and maturities ranging from 2001 to 2030.	<u>74,909,534</u>	<u>79,108,073</u>
	TOTAL OTHER FIXED-INCOME INVESTMENTS	<u>\$185,918,296</u>	<u>\$195,403,698</u>
	TOTAL FIXED-INCOME INVESTMENTS	<u>\$ 445,430,990</u>	<u>\$ 468,779,563</u>

◆ U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS

96,090,658	U.S. Government sponsored and guaranteed with rates ranging from 6% to 13.5% and maturities ranging from 1995 to 2023.	\$ 99,334,717	\$ 101,203,707
33,983,180	Federal Agency securities with rates ranging from 6% to 11.5% and maturities ranging from 1993 to 2023.	24,961,938	25,870,490

PRIT FUND

SHARES/PAR VALUE	DESCRIPTION	COST	MARKET VALUE
	U.S. Governments Agency and Treasury, continued.		
187,125,769	United States Treasury Bonds/Notes with rates ranging from 3.875% to 12.375% and maturities ranging from 1993 to 2021.	<u>\$154,374,491</u>	<u>\$164,372,461</u>
	TOTAL U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS	<u>\$278,671,146</u>	<u>\$291,446,658</u>
	◆MONEY MARKET INVESTMENTS		
209,589,092	State Street Short-term Investment Fund	\$209,989,092	\$209,989,092
12,920,585	Miscellaneous Money Market Investments	<u>12,920,585</u>	<u>12,920,585</u>
	TOTAL MONEY MARKET INVESTMENTS	<u>\$222,909,677</u>	<u>\$222,909,677</u>
	◆REAL ESTATE		
	Commingled funds	267,847,715	137,857,304
	Separate accounts	<u>212,932,499</u>	<u>114,252,534</u>
	TOTAL REAL ESTATE	<u>\$480,780,214</u>	<u>\$252,109,838</u>
	◆ALTERNATIVE INVESTMENTS		
	Venture Capital	\$ 84,705,966	94,320,180
	Special Equity	<u>194,811,429</u>	<u>242,072,869</u>
	TOTAL ALTERNATIVE INVESTMENTS	<u>\$279,517,395</u>	<u>\$336,393,049</u>

INTERNATIONAL INVESTMENTS ◆

SHARES/PAR VALUE	DESCRIPTION	COST	MARKET VALUE
◆EQUITIES			
4,189,862	Basic industries	\$9,759,074	\$9,697,113
6,166,412	Capital goods	23,024,209	27,741,215
5,502,846	Consumer basics	44,496,741	47,682,367
753,143	Consumer durable goods	8,240,386	9,184,818
4,623,277	Consumer nondurable goods	33,024,173	34,543,211
4,000,285	Consumer services	4,638,763	6,097,569
860,736	Energy	3,968,916	4,113,568
9,955,857	Finance	42,303,107	50,086,626
2,554,907	General business	16,670,485	18,258,550
2,096,208	Shelter	15,914,417	16,709,012
2,249,715	Technology	10,170,181	11,774,037
647,550	Transportation	2,568,206	2,474,402
6,825,110	Utilities	28,653,041	35,626,158
63,592,434	Miscellaneous	40,166,327	47,170,258
TOTAL EQUITIES		\$283,598,026	\$321,158,904

◆FOREIGN GOVERNMENT TREASURY OBLIGATIONS

Government and Supranational
with rates ranging from
4.5% to 13.45% and maturities
ranging from 1995 to 2023.

177,884,086 183,218,038

◆FIXED INCOME

Foreign Corporate Bonds
with rates ranging from 3.625% to 17%
and maturities from 1995 to 2023.

26,306,842 26,924,296

TOTAL INTERNATIONAL INVESTMENTS

487,788,954 531,301,238

◆TOTAL INVESTMENTS◆

\$3,618,287,930 \$3,929,807,142

A detailed portfolio listing is available for review at the Pension Reserves Investment Management Board offices.

SEE ACCOMPANYING NOTES.

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 1999-2000

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2000-2001

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2001-2002

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2002-2003

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2003-2004

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2004-2005

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2005-2006

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2006-2007

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2007-2008

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2008-2009

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2009-2010

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2010-2011

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2011-2012

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2012-2013

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2013-2014

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2014-2015

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2015-2016

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2016-2017

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2017-2018

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2018-2019

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2019-2020

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2020-2021

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2021-2022

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2022-2023

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2023-2024

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2024-2025

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2025-2026

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2026-2027

Editorial Board: Sir Ian H. Stewart, President of the Royal Anthropological Institute, 2027-2028

MASS. PR38.1: 994



ANNUAL REPORT

FOR THE FISCAL YEAR ENDING JUNE 30, 1994

PENSION RESERVES INVESTMENT TRUST FUND



CONTENTS

LETTER FROM THE CHAIRMAN.....	1
MESSAGE FROM THE EXECUTIVE DIRECTOR.....	5
PRIT FUND LANDMARK EVENTS.....	8
PRIT FUND FINANCIAL AND PERFORMANCE SUMMARY.....	9
OVERVIEW.....	10
ASSET ALLOCATION - DIVERSIFICATION - PERFORMANCE.....	16
INVESTMENT MANAGERS AND ADVISORS.....	22
FINANCIAL STATEMENTS.....	26

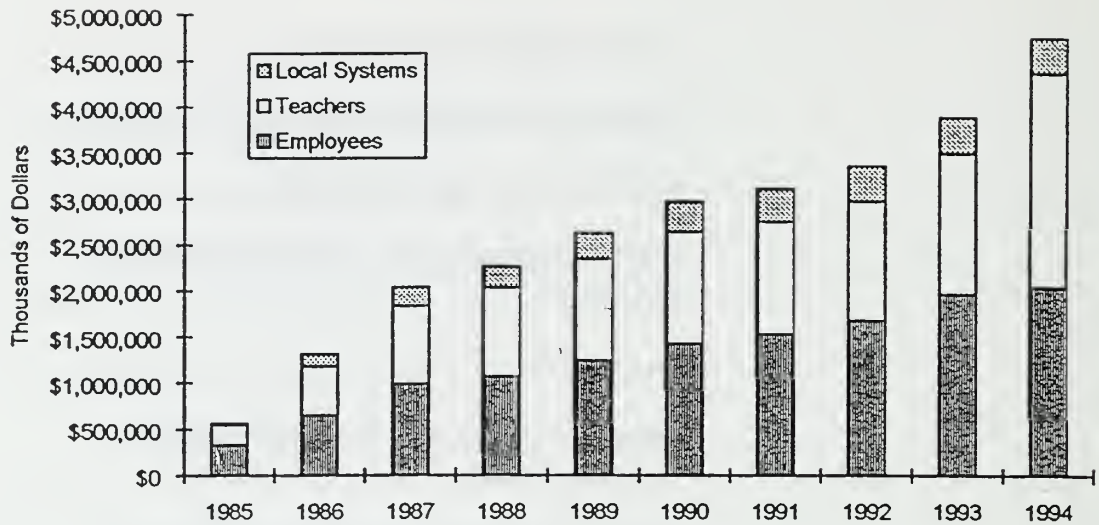


ANNUAL REPORT

FOR THE FISCAL YEAR ENDING JUNE 30, 1994

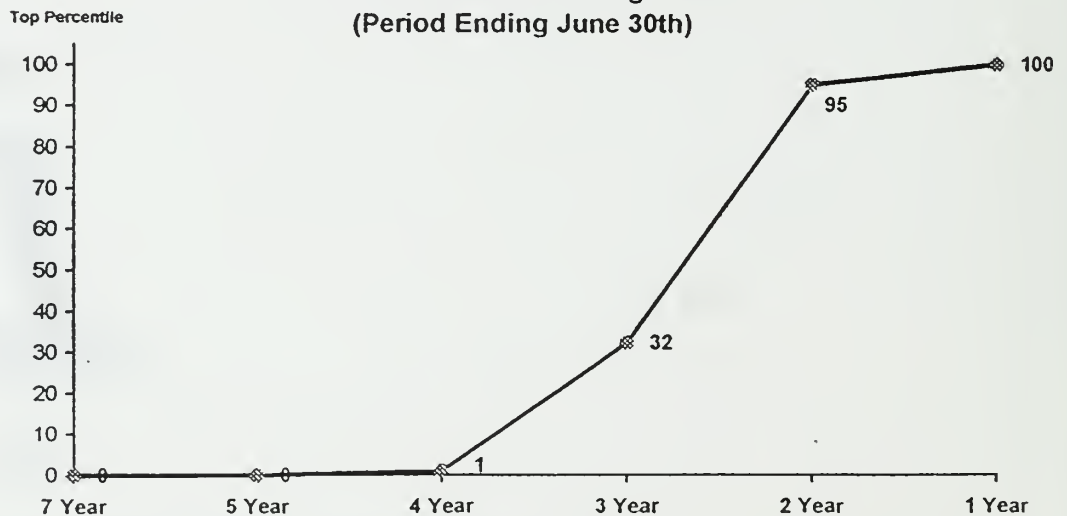
PENSION RESERVES INVESTMENT TRUST FUND

Growth of the PRIT Fund



The PRIT Fund's assets have increased from \$442 million when it started operations in fiscal year 1985 to \$4.7 billion as of June 30, 1994, representing a 26% growth annually.

TUCS Public Fund Ranking of PRIT (Period Ending June 30th)



The PRIT Fund's performance improved dramatically to rank at the top of its public pension fund peers nationwide for fiscal year 1994, as ranked by the Trust Universe Comparison Service (TUCS). [100 representing the top ranking]

LETTER FROM THE CHAIRMAN

September 30, 1994

Dear Participants and Purchasers:

Fiscal year 1994 marks the tenth anniversary of the Pension Reserves Investment Trust (the "Fund"), and its trustee, the Pension Reserves Investment Management ("PRIM") Board. Over the last decade, the Fund has weathered bull and bear markets, met operating challenges, and generated returns that have at times been impressive and at other times, disappointing.

Fiscal year 1994 marked the Fund's return to a leadership position among all public pension plans. The Fund's performance was exceptional; in fact, in relative terms and when ranked locally and nationally, the Fund achieved its highest ranking since inception.

The Fund was started with ambitious objectives: to make prudent investments while aggressively reducing the Commonwealth's unfunded pension liabilities. The early years saw impressive returns and placed the Fund among the leading public funds in the state. After its initial five years and prior to my election as Treasurer and Chairman of the Board in 1990, however, the Fund's absolute and relative performance declined dramatically. In 1991, we undertook an extensive review of all our investments and managers, adjusted the real estate portfolio to appropriately reflect current values, replaced under-performing managers in our public securities line-up, and implemented comprehensive investment policies. I am pleased to report that as a result of the tireless work of the Board, subcommittees and staff, we were able to arrest the slide in 1991, effect a moderate turnaround in 1992, and are now back on top, ranked among the leaders in the state and across the country. According to the Trust Universe

Comparison Service, which ranks major public pension funds in the United States, PRIM's performance was ranked in the top one percent of their public pension funds for fiscal 1994.

Other changes in the Fund over the past ten years have also been dramatic. The Fund has increased its assets by almost eleven fold. The Fund's initial investment in two domestic asset classes, has expanded to our current structure of broad diversification among seven major asset classes, with about 25% of assets invested internationally. The Fund's impressive returns and the annual state pension appropriation have increased the pension system funding level to more than 52%, from its dismal level of approximately 35% in 1984.

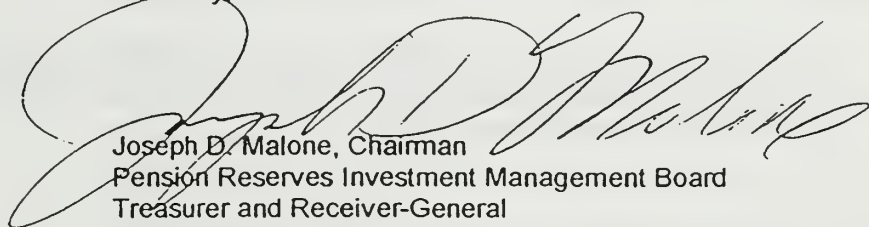
As we look back on the ten years of changes, I want to assure you as the PRIM Board's Chairman that we will not rest on these accomplishments. Within the last year, we have undertaken new initiatives to further improve performance and to make operations more efficient and cost effective. Most notably, I have proposed legislation to merge the \$7.5 billion State Teachers and Employees Retirement System ("MASTERS") Trust with the \$4.7 billion PRIT Fund, so that both funds will be managed by the PRIM Board. The merger will eliminate much of the duplication that exists between the two funds, avoid costly annual asset transfers from MASTERS to PRIM, and save between \$12 million and \$15 million annually.

We have also taken steps to offer PRIM's purchasing systems a more flexible investment alternative through which local retirement boards can invest selectively in any of the PRIT Fund's diversified asset classes. And, PRIM and MASTERS are working together to establish a \$50 million Massachusetts venture capital fund, which will bring superior investment returns to the funds' beneficiaries while improving the economic climate of the Commonwealth. The Board and staff will continue to be active in developing new programs, new products and new services, all with the fundamental objective of maximizing returns on investment in a prudent manner.

I would like to express my gratitude to our nine member board -- which represents a cross section of beneficiaries, administration, and experienced investment professionals -- and welcome our newest Board member, Leticia Rivera-Torres, Ph.D. of M.I.T. I also appreciate the contributions of the Board's subcommittees, composed of investing system representatives and professionals. Finally, I want to thank PRIM's staff, including the past Executive Director, Paul Doane, and the new Executive Director, Gregory A. White.

As always, I remain committed to the goal to make the Commonwealth Pension System a model of efficiency and performance.

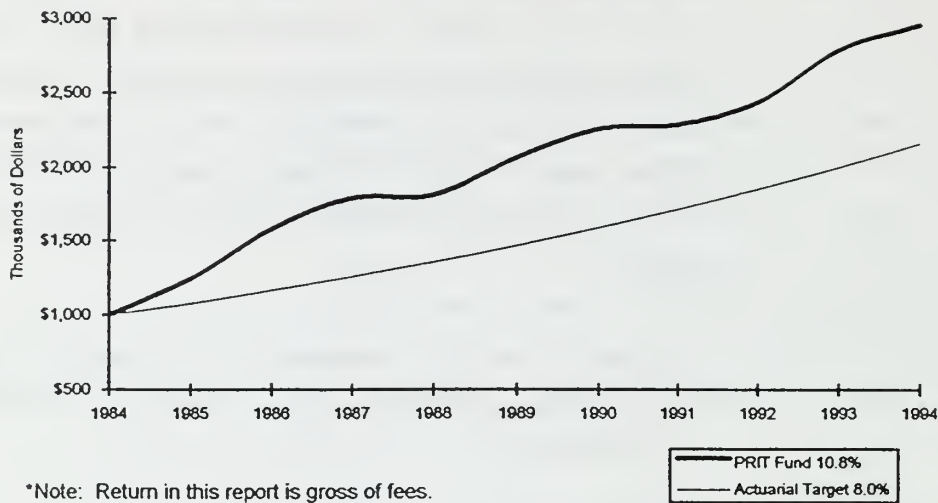
Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'Joseph D. Malone', is written over the typed name and title.

Joseph D. Malone, Chairman
Pension Reserves Investment Management Board
Treasurer and Receiver-General
The Commonwealth of Massachusetts

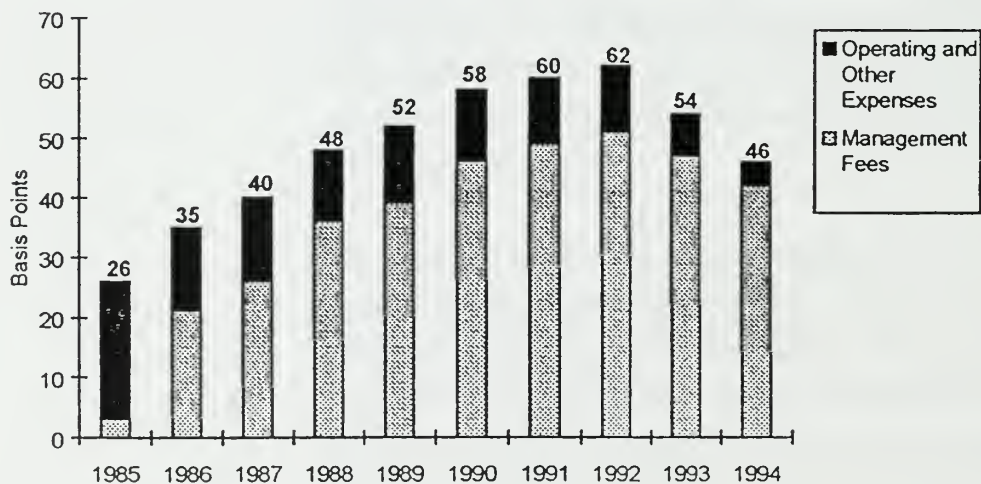
PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Growth of Investment *



One million dollars invested in the PRIT Fund at its inception in 1984 grew at an annual rate of 10.8% to \$2.96 million ten years later, exceeding the actuarial target of 8.0% (which would have generated only \$2.16 million in 1994).

PRIM's Expenses as a Percentage of Fund



In 1994, PRIM met its goal of reducing the PRIT Fund's total operating expenses and management fees to less than one-half of one percent (0.50%) of assets.

MESSAGE FROM THE EXECUTIVE DIRECTOR

September 30, 1994

Dear Participants and Purchasers:

I am pleased to present the fiscal year 1994 Annual Report of the Pension Reserves Investment Trust Fund. The report comes with good news and presents several accomplishments. The Fund has completed ten years under a unique structure and has regained its impressive performance and leadership rankings. The Board and staff have initiated many new programs directed at improving performance and service to our investing systems.

Fiscal year 1994 started with a bull market, but the second half presented many challenges for investors. During the first six months of the fiscal year, almost every asset class and market contributed substantial returns. However, as many economists predicted, there was a drastic slowdown in the equities market and increased interest rates produced a decline in the fixed income markets. As the fiscal year drew to a close, the Fund delivered a 6.21% gross return.

While this was a moderate absolute return, on a relative basis it was exceptional. The S&P 500 equity index returned only 1.17% over the period and the Lehman Brothers Aggregate fixed income index returned -1.31%. According to the Public Employees Retirement Administration ("PERA"), PRIM's returns for the year ending December 31, 1993 were third highest in the state, the best single calendar year ranking in our ten year history. Our fully invested systems also ranked high. Since inception ten years ago, the Fund has produced an annualized return of 10.8%. The most recent Public Employees Retirement Administration report ranked PRIT's performance since inception thirteenth highest among the Commonwealth's 107 retirement funds for the period ending December 31, 1993. And, for the fiscal year ending June 30, 1994, PRIM was ranked in the top one percentile of all major

public pension funds tracked by the Trust Universe Comparison Service.

We believe that the returns in fiscal year 1994 signal the beginning of a difficult period for investments. The high returns of bonds and stocks over the past ten years are unlikely to be sustained over the next decade, resulting in more modest earnings for investors. Consequently, like other investors looking ahead, we must adjust our expectations. The Board and staff will need to work even harder to meet our long-term target.

During this past fiscal year, the Board and staff made progress on several initiatives that will contribute to the overall benefit of our investing systems. PRIM completed the first full year with its new line-up of public securities managers. The team generated strong returns and in most case outperformed their benchmarks. PRIM continues to operate under an active performance fee program which pays a low base fee to our managers comparable to inexpensive index funds. Incremental incentive fees are paid only if the managers perform substantially better than the appropriate benchmarks. And, the Board and staff continued to work to achieve efficiency while controlling costs. The annual operating cost of PRIM is now less than half of one percent of the Fund.


PRIM also commenced numerous service-related initiatives for our participating and purchasing retirement systems. We installed a computer network internally and commenced programming of data bases and performance reporting systems. We reduced the time for monthly reporting, increased the frequency of our performance newsletters, and took steps to permit purchasing systems to invest in specific segments of the PRIT fund according to their own asset allocations.

We move ahead into PRIM's second decade with optimism and confidence in our existing asset management team and staff. I look forward to working with our affiliated retirement systems, those committed to PRIM over the years and those systems that

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

have joined us recently. I would also like to extend my gratitude to PRIM's Board, sub-committee members, and very faithful staff.

Sincerely,

A handwritten signature in dark ink, appearing to read "Gregory A. White". The signature is fluid and cursive, with a large initial "G" and a stylized "A".

Gregory A. White
Executive Director
Pension Reserves Investment Management Board

PRIT FUND LANDMARK EVENTS

1983	PRIM's enabling legislation, Chapter 661, enacted
	\$ 442 million in assets
1984	Began operations, October 1, 1984, with fixed income portfolio First local participating system, Town of Weymouth
1985	Funded domestic equity managers - index and active Adopted first asset allocation plan Funded domestic fixed income managers - active and index
	\$1 billion in assets
1986	Funded real estate managers First purchasing system, Town of Hingham Funded domestic venture capital manager Funded international equity managers - active and index
1987	Funded international venture capital manager
	\$2 billion in assets
1988	Funded international fixed income active managers
1990	Funded "emerging markets" managers Funded global equity manager
	\$3 billion in assets
1991	Revised long-term asset allocation plan Adopted new real estate policy Revised investment strategies within public market asset classes
1992	Funded "new team" of domestic and international public markets active and index managers Adopted formal alternative investment policy
	\$4 billion in assets
1993	Funded "emerging" managers Adopted overall investment policy
1994	Approved venture capital ETI program Approved new real estate managers Approved amendments to Operating Trust Agreement to permit "segmentation" of PRIT Fund
	\$4.7 billion in assets

PRIT FUND FINANCIAL SUMMARY AND PERFORMANCE SUMMARY

Financial Summary	Yr. Ending June 30, 1993	Yr. Ending June 30, 1994
Cash	\$6,823,125	\$10,793,941
Investments	3,929,807,142	4,798,064,777
Receivables & Other Assets	50,738,028	67,456,827
Total	\$3,987,368,305	\$4,876,315,545
Payable for Inv. Purchase	73,226,950	101,601,143
Notes Payable	29,725,918	29,461,995
Management Fee Payable & Other	7,050,224	4,745,077
Total Liabilities	\$110,003,092	\$135,808,215
Net Assets	3,565,846,001	4,764,081,586
Unrealized App (Dep)	311,519,212	(23,574,256)
Total Net Assets	\$3,877,365,213	\$4,740,507,330
One Year Return	14.48%	6.21%
Return Since Inception	11.36%	10.80%
Operating Expense as % of Fund	0.54%	0.46%

Performance Summary - Year Ending June 30, 1994

Component of Portfolio	PRIT Performance	Index Performance	Broad Index
Domestic Equity	2.42%	1.17%	S&P 500
International Equity	19.71%	14.89%	Morgan Stanley EAFE
Global Manager	11.63%	10.24%	MSCI World Index
Domestic Fixed Income	0.34%	-1.31%	Lehman Brothers Agg.
International Fixed Income	2.42%	5.02%	Salomon Brothers WGB
Real Estate	-2.87%	4.08%	Russell NCREIF R. E. Index
Alternative Investments	28.99%	5.67%	S&P 500 + 450 bp
PRIT Fund	6.21%	1.70%	TUCS Public Fund Median

OVERVIEW

The PRIT Fund

The Pension Reserves Investment Management Trust (PRIT) Fund is a pooled investment fund established to invest the pension reserve assets of the Massachusetts State Employees' and Teachers' Retirement Systems, and the assets of county, authority, district, and municipal retirement systems that choose to invest in the Fund. The PRIT Fund was created in December 1983 by the Legislature (chapter 661, acts 1983) with a mandate to accumulate assets through investment earnings and other revenue sources in order to reduce the Commonwealth's significant unfunded pension liability, and to assist local participating retirement systems in meeting their future pension obligations. As of June 30, 1994, the assets of the PRIT Fund exceeded \$4.7 billion. The Pension Reserves Investment Management (PRIM) Board is charged with the general supervision of the PRIT Fund.

In making investments, the PRIM Board is guided by the prudent person rule. It is PRIM's mission to maximize the return on investment within acceptable levels of risk that are appropriate for a public pension fund. The PRIM Board executes its duties on behalf of state employees and teachers, and investing systems by:

- Providing a broad diversification of its investment portfolio;
- Capitalizing on economies of scale to achieve cost effective operations;
- Providing access to high quality, innovative investment management firms; and
- Extending access to an experienced professional staff, team of consultants, investment committee members, and Board of Trustees.

As initially created, the PRIT Fund consisted of two investment funds: the Capital Fund and the Cash Fund. Cash, deposited and

invested on a temporary basis, is transferred monthly from the Cash Fund to the Capital Fund. Once in the Capital Fund, funds are invested and reinvested across all asset classes under PRIM's long-term investment guidelines and asset allocation.

Immediately prior to the close of fiscal year 1994, the PRIM Board amended its Operating Trust Agreement. The amendments made several technical changes in the PRIT Fund accounting structure and authorized the PRIM Board to establish separate accounts of the Capital Fund. These changes will permit retirement systems to invest in specific segments of the PRIT Fund. This initiative, referred to as "segmentation", was developed in response to a growing number of purchasing and unaffiliated retirement systems' requests that PRIM expand investment options. Legislation to explicitly confirm purchasing systems' authority to invest in particular segments of the Fund is pending before the Legislature.

The PRIM Board

The nine-member PRIM Board acts as Trustee for each retirement system that invests in the PRIT Fund and is responsible for the control and management of the Fund. The Treasurer and Receiver-General of the Commonwealth is a member ex officio and serves as Chairman. The Governor or his designee and the Commissioner of the Division of Public Employee Retirement Administration are also ex officio members of the Board. The Governor and Treasurer each appoint two members of the Board, and the employees and retirees of the State Employees' and State Teachers' retirement systems each elect one Board member.

Joseph D. Malone, Chairman, Ex Officio Member
State Treasurer & Receiver-General

John J. McGlynn, Vice Chairman, Ex Officio Member
Commissioner, Division of Public Employee Retirement
Administration

James B.G. Hearty, Designee of the Governor, Ex Officio Member
Managing Director, Lehman Brothers

Daniel J. O'Neil, Appointee of the Governor,
Public Safety Organization Representative
President, Massachusetts Correction Officers Federated Union
Term expires 3/30/95

Glenn M. Johnson, Appointee of the State Treasurer,
Private Citizen, Investment/Business Field
President, J.M. Johnson Associates
Term expires 6/5/97

Leticia Rivera-Torres, Appointee of the Governor,
Non-State Employee or Official
Lecturer, Massachusetts Institute of Technology, Department of
Urban Studies and Planning
Term expires 2/1/96

Robert Brousseau, Elected Member, State-Teachers
Retirement System Representative
Teacher, Wareham School System
Term expires 7/20/96

Joseph DeLorey, Appointee of the State Treasurer,
Union Member Representative
Treasurer, National Association of Government Employees
Term expires 4/27/96

Ralph White, Elected Member, State Employees' Retirement
System Representative
President, Retired State, County and Municipal Employees
Association of Massachusetts
Term expires 7/20/96

The PRIM Board Staff

The PRIM Board employs a full-time professional staff to manage the day-to-day operations of the Fund and report to the Board. PRIM's staff is comprised of individuals with strong backgrounds in financial management and pension fund administration, as well as legal, accounting, and client servicing expertise.

Gregory A. White
Executive Director

W. Bruce Livingston
Chief Investment Officer

R. Scott Henderson
General Counsel

West Coghlan
Senior Investment Officer, Alternative Investments

Philip D. Kett
Senior Investment Officer, Public Markets

Michael J. Speidel
Director of Real Estate Investments

Paul W. Todisco
Client Services Officer

Bradford B. Wakeman, C.P.A.
Financial Officer

Maureen Duval
Investment Analyst

Kim-Anh Nguyen
Staff Accountant

Patricia Lewis
Administrative Assistant

Advisory Committees of the PRIM Board

Several years ago, the PRIM Board established advisory committees to provide a broader range of advice to the Board on an informal basis. These committees are generally comprised of two or three Board members, a representative from either a participating or purchasing retirement system, and a private

citizen from the investment or business community. Currently, there are three working advisory committees: Administration and Audit, Investment, and Real Estate. The committees have contributed important insights for PRIM's internal operations and external asset management.

Administration and Audit Committee

Robert Brousseau, Chairman
Board Member

John J. McGlynn
Board Member

Joseph DeLorey
Board Member.

Irma Tyler-Wood
Principal, Conflict Management, Inc.

Richard P. Foley (Audit Committee only)
Town Accountant, Reading Retirement Board

Investment Committee

Ralph White, Chairman
Board Member

Daniel J. O'Neil
Board Member

Leticia Rivera-Torres
Board Member

Joseph P. Craven
Deputy Treasurer

Thomas Craig
Director, Monitor Company

Robert D. Hall
County Treasurer, Norfolk County Retirement Board

Frank Lagrotteria
Weymouth Retirement Board

Real Estate Committee

James B. G. Hearty, Chairman
Board Member

Glenn M. Johnson
Board Member

Thomas H. Trimarco
First Deputy Treasurer

Member State and Municipal Retirement Systems

A governmental retirement system within the Commonwealth may elect to participate by vote of its board to join the PRIT Fund. The board may choose to participate as a *Participating System* or a *Purchasing System* to the Fund. Participating systems qualify for funds appropriated by the Commonwealth to reduce the unfunded pension liability. By joining PRIT, retirement systems share in the benefits of PRIT's professional portfolio structure, including its variety of investment opportunities.

Member State and Municipal Retirement Systems as of June 30, 1994:

Belmont Retirement Board*
 Berkshire County Retirement Board*
 Brookline Retirement Board*
 Concord Retirement Board*
 Dedham Retirement Board
 Fairhaven Retirement Board
 Framingham Retirement Board*
 Gardner Retirement Board
 Greenfield Retirement Board*
 Hingham Retirement Board
 Lowell Retirement Board*
 Marblehead Retirement Board*
 Massachusetts Water Resources Authority Retirement Board*
 Milton Retirement Board
 Minuteman Regional Vocational Technical School
 Retirement Board
 Montague Retirement Board
 Needham Retirement Board
 New Bedford Retirement Board*
 Norfolk County Retirement Board*
 Northbridge Retirement Board
 Quincy Retirement Board*
 Reading Retirement Board
 Saugus Retirement Board
 Wakefield Retirement Board
 Weymouth Retirement Board
 State Employees Retirement Board
 State Teachers Retirement Board

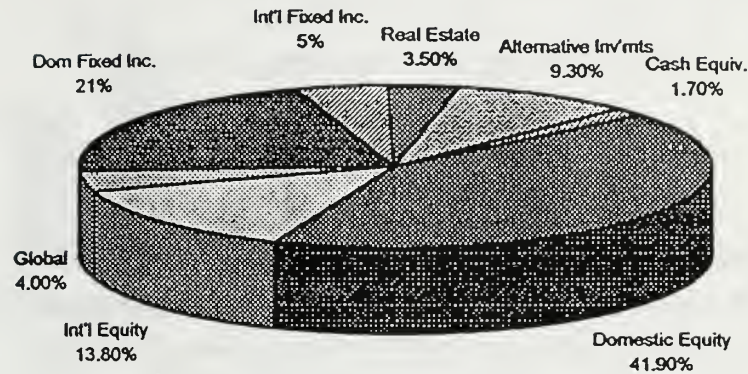
*Purchasing System

ASSET ALLOCATION – DIVERSIFICATION – PERFORMANCE

Asset allocation – how much to invest in securities versus real assets, equities versus fixed income, or domestic versus international securities – is the single most important decision for pension fund fiduciaries. The long-term allocation rather than the selection of particular investment managers or securities typically determines 80% to 90% of a fund's performance. Historically, equity securities (stocks) have earned more than twice the return of fixed income securities (bonds). For example, over the past fifty years, the S&P 500 Stock Index has had an annualized return of 12.3% versus 5.6% for the Sinquefeld/Lehman Bond Index. When making asset allocation decisions, however, fiduciaries must also consider "risk": the volatility of an asset class and the likelihood of losses in any given year. While equities have a higher expected return than fixed income, they also have a higher risk factor. The risk of loss must be balanced with the expected return to reach an appropriate asset allocation.

The PRIM Board has considered these issues and established aggressive but prudent interim and long term asset allocation plans with the objective of achieving a 6% real return (net of inflation). The long term plan allocates 67% of PRIT's assets to equity investments, 24% to fixed income, and 9% to real estate assets. Allocating funds to various asset classes reduces the risk that would be present in only one asset class. To further reduce risk, the PRIM Board allocates funds across different components of each asset class. For example, within equities, 38% of the investments are in publicly-traded domestic stocks, 17% in publicly-traded foreign stocks, and 12% in alternative investments, which are private venture capital, buyout or special situation investments. Because these three equity asset classes behave differently, investing in all three reduces the risk of loss.

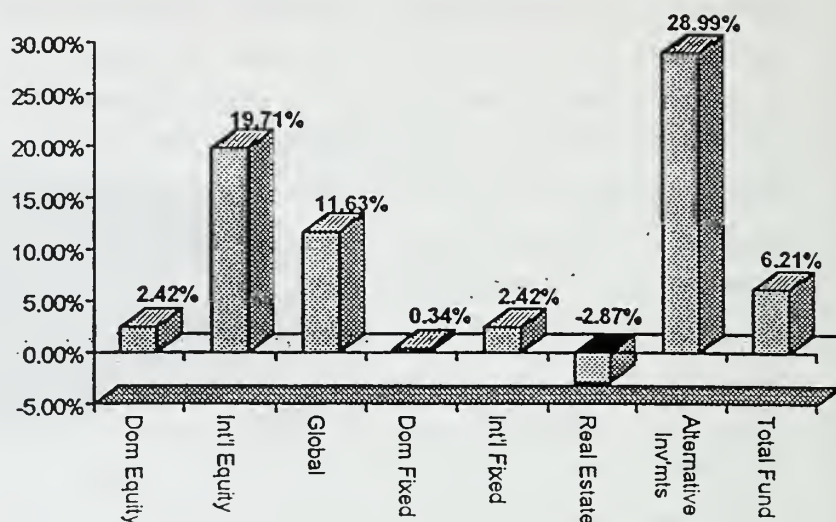
Actual Asset Allocation as of June 30, 1994



Fiscal 1994 Performance

Fiscal 1994 was a very volatile year for the securities markets, especially for fixed income securities. U.S. interest rates fell to very low levels by October 1993 and bond prices, which move inversely to interest rates, peaked. Since October, interest rates have increased and bond prices have fallen sharply. Domestic equity markets have also experienced a difficult period. A strong economy generated increased profits for many companies; however, increasing concerns over inflation and interest rates mitigated this positive effect and resulted in disappointing equity returns. In sharp contrast to the domestic equity markets, international equities realized excellent returns in excess of 19% and clearly demonstrate the advantages of diversifying equity investments. For the fiscal year PRIT generated a gross return of 6.21%, bringing the fund's annualized return since inception to 10.80%.

Returns for All Asset Classes, FY 1994



Domestic Equity

During the first half of fiscal 1994, PRIM's domestic equity portfolio, buoyed by a strong economy and declining interest rates, had a 6.51% return. PRIM's small capitalization equity portfolio, a component of the domestic equity portfolio, had an even higher return of 12.47%.

During the second half of fiscal 1994, interest rates increased sharply due to concerns about inflation and equities experienced poor returns. PRIM's equity portfolio was down 3.84% with small cap equities down 5.91% during this period. The overall return for domestic equities for the fiscal year was 2.42%.

Domestic Fixed Income

As a result of interest rates reaching very low levels, including a record low for the 30 year treasury bond in October, PRIM's fixed income portfolio had a strong 4.54% return for the first half of fiscal 1994.

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

During the second half of the fiscal year, interest rates increased sharply. The 30 year treasury bond yield rose from 6% to 7.61%, resulting in one of the worst six month periods in the bond markets' history. PRIM's fixed income portfolio had a negative 4.01% return for the six month period. Overall, the portfolio's returns were slightly positive, at 0.34% for the fiscal year.

International Equity

Many international markets were extremely volatile during the past fiscal year. During the first half of fiscal 1994, PRIM's international equity portfolio had a very strong 22.33% return. Returns for the Pacific and emerging market components of the international equity portfolio were even higher, at 39.38% and 46.01%, respectively. The higher returns for international equities were due in large part to the strength of these foreign economies. Many emerging market economies are growing at rates of over 8% compared to 4% or less for the U S economy. In sharp contrast to the first half of the fiscal year, the second half was a period of mostly negative returns. PRIM's international equity portfolio was down 2.14% with the Pacific and emerging market components down 10.57% and 6.08%, respectively. However, overall the international equity portfolio generated an excellent return for the full fiscal year of 19.71%.

Global

PRIM's global portfolio, which consists of domestic and foreign stocks and bonds, returned 11.63% for the fiscal year. This strong performance was largely the result of holding Japanese equity securities, which represented 46% of the portfolio at fiscal year end. More than half of the total return resulted from the decline of the U S dollar, especially relative to the Japanese currency, which reached a post World War II high during fiscal 1994.

International Fixed Income

As interest rates continued to fall in Japan, United Kingdom, Germany, and France during the first half of the fiscal year, PRIM's international fixed income portfolio had an 8.59% return. During the second half of the fiscal year, interest rates increased sharply and PRIM's international fixed income portfolio had a negative return of 5.68%. For the full fiscal year the portfolio earned a positive 2.42%.

Real Estate

During fiscal 1994, PRIM's real estate portfolio had a negative 2.87% return. The year can be generally characterized as the period when real estate values bottomed out in most markets. Industrial, large retail, and multi-family property types are generally starting to increase in value. Indeed, for the second half of the fiscal year, the real estate portfolio performed relatively well, with a return of 3.90%. During the year, the PRIM Board took what it believes should be the last significant write-off of a pre-existing poorly performing investment.

Alternative Investments

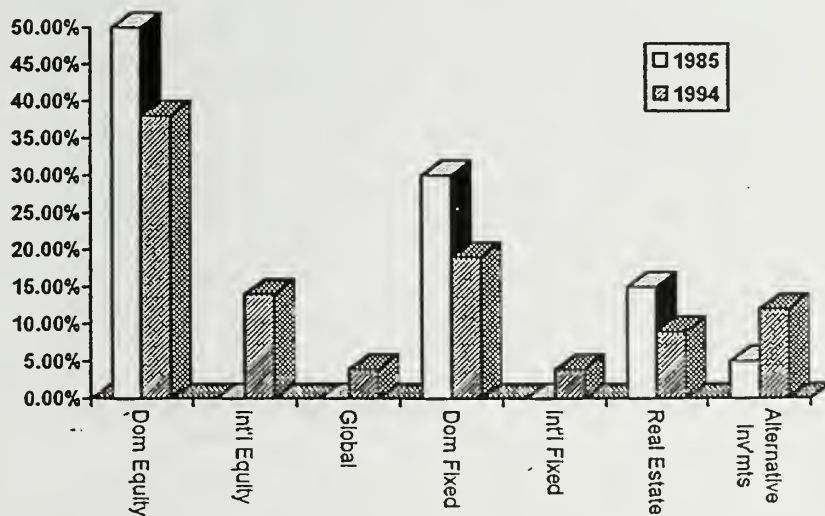
The alternative investment asset class consists of a venture capital portfolio, 23% of the class, and special situations (e.g., LBO's), 77% of the class. The combined portfolio was the best performing asset class for PRIT during fiscal 1994, generating a return of 28.99%. The strongest return came from special situation components which realized 33.38%, due to the strong equities market during the first half of the fiscal year. The venture capital portfolio returned 19.20%.

A LOOK BACK - PRIM TEN YEARS AGO

The PRIM Board began operations on October 1, 1984 with a domestic fixed income portfolio totaling \$442 million. After developing its first long-term asset allocation, the PRIM Board adopted targets of 50% equities, 30% fixed income, 15% real estate and 5% venture capital.

1985 was one of the best years on record for the equity and fixed income markets. The S&P 500 realized a 32.03% return while the Shearson Lehman Bond index realized a 21.30% return. In that year, the Fund generated 22.85% in returns, reflecting its heavy commitment to fixed income securities. Since then, the Board has moved to become more diversified in securities and market exposure, as represented below. The Fund's current relative performance is a validation of the Board's decision to broadly diversify the Fund's investments.

Long-Term Asset Allocation: 1984 and 1994



INVESTMENT MANAGERS AND ADVISORS

Investment Managers

The PRIM Board retains outside managers to invest PRIT Fund assets according to the Fund's asset allocation and investment guidelines. Most of the Fund's equity managers are compensated under various "performance fee" agreements, which reduce base management fees while rewarding exceptional investment returns. The PRIM Board has achieved its goal of operating the Fund at a cost of one-half of one percent of total assets.

PRIT Fund Investment Managers as of June 30, 1994

Domestic and International Equity Managers

Alliance Capital Management L.P., New York
 Babson-Stewart-Ivory International, Edinburgh
 Bankers Trust Co., New York
 Batterymarch Financial Management, Boston
 Boston Company Institutional Investors, Boston
 Brown Capital Management, Inc., Baltimore
 Capital Guardian Trust Company, Los Angeles
 Cursitor Eaton Asset Management (TCW), London
 Emerging Markets Management, Washington, DC
 Fidelity Management Trust Company, Boston
 Kennedy Capital Management, Inc., St. Louis
 Lombard Odier International, London
 Massachusetts Financial Services Company, Boston
 PanAgora Asset Management, Boston
 Pareto Partners, London
 Putnam Advisory Co., Boston
 Rhumblin Advisers, Boston
 Scudder, Stevens & Clark, Inc., New York
 State Street Global Advisors, Boston
 TCW Asset Management, Los Angeles
 ValueQuest, Ltd., Marblehead, MA

Domestic and International Fixed Income Managers

Bankers Trust Company, New York
 Baring International Investment, Ltd., London
 Fidelity Management Trust Company, Boston
 W. R. Huff Asset Management Company, Morristown, NJ
 Massachusetts Financial Services, Boston
 Pacific Investment Management Co., Newport Beach, CA
 Putnam Advisory Co., Boston
 Rothschild International Asset Management, Ltd., London
 Standish, Ayer & Wood, Inc., Boston
 TCW Asset Management, Los Angeles

Domestic Real Estate Managers

Aldrich, Eastman & Waltch, Inc., Boston
Alex Brown Kleinwort Benson Realty Advisors, Baltimore
Bear Stearns Realty Partners, New York
Boston Financial Group, Inc., Boston
Copley Real Estate Advisors, Inc., Boston
Equitable Real Estate Investment Management, Atlanta
Hancock Real Estate Investment Group., Boston
Heitman Advisory Corp., Chicago
Invesco Realty Advisors, Inc., Dallas
JMB Institutional Realty Corp., Chicago
TA Associates Realty, Boston
TCW Realty Advisors, Los Angeles

**Domestic and International Venture Capital and
Special Equity Partnerships**

Advent International, Boston
Arral Pacific Management, Lt., Hong Kong
Alan Patricof Associates, Ltd., New York
Belmont Capital Partners II Fund, Boston
The Blackstone Group, New York
Wm. Blair Mezzanine Capital Management, Chicago
Boston Ventures Management, Inc., Boston
Capital Resource Lenders, Boston
Commonwealth Bioventures, Inc., Worcester, MA
Davis Venture Partners, Tulsa
Dominion Ventures, San Francisco
Donaldson, Lufkin & Jenrette Merchant Banking Partners, New York
1818 Fund, Brown Brothers Harriman & Co., New York
Equitable Capital Management Corp., New York
Forstmann Little & Co., New York
Freeman Spogli Equity Partners, Los Angeles
Golder, Thoma and Cressey, Chicago
Hancock Venture Capital Management, Inc., Boston
Invexco, Inc., Houston
Joseph Littlejohn & Levy Fund, New York
Kohlberg, Kravis & Roberts and Co., New York
Landmark Equity Partners, New York
Madison Group, L.P., Westport, CT
Massachusetts Technology Development Corp., Boston
Morgan Holland Partners, Boston
Nash, Sells & Partners, Ltd., London
Schroder UK Buyout Fund, London
Smith Offshore Exploration Co., Houston
Southern California Ventures, Sherman Oaks, CA
TA Associates, Boston
Thomas H. Lee Equity Partners, L.P., Boston
Venture Capital Fund of New England, Boston
Vista Partners, New Canaan, CT

Outside Advisors

The PRIM Board retains outside advisors to assist in monitoring existing investments, evaluating new opportunities, and operating the Fund. Consultants use their particular expertise to assist the Board and its staff in the areas of General Portfolio Strategy and Investments, Real Estate, and Private Markets. The Board retains outside legal counsel for a broad variety of investment-related matters, and certified public accountants to complete the annual audit. The Fund's custodian is responsible for providing all record-keeping and analytic performance valuations for the Fund.

Principal Outside Advisors as of June 30, 1994

CUSTODIAN

State Street Bank & Trust Company, Boston

FUND ADVISORS

Private Markets:

Lewis, Bailey Associates, Inc., Boston

Real Estate:

Boston Financial Group, Boston

Morris and Morse Company, Inc., Boston

General Investments/Strategy:

Wilshire Associates, Inc., Santa Monica, CA

LEGAL COUNSEL

Goodwin, Procter & Hoar, Boston

INDEPENDENT AUDITORS

Ernst & Young, L.L.P., Boston

◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆

TELEPHONE: (617) 439-4600
FACSIMILE: (617) 439-6989

AUDITED FINANCIAL STATEMENTS AND SCHEDULE

PENSION RESERVES INVESTMENT TRUST FUND
AUDITED FINANCIAL STATEMENTS AND SCHEDULE ♦

YEARS ENDED JUNE 30, 1994 AND 1993 ♦
WITH REPORT OF INDEPENDENT AUDITORS

AUDITED FINANCIAL STATEMENTS AND SCHEDULE

Contents

Report of Independent Auditors 28

Audited Financial Statements

Statements of Assets and Liabilities 29

Statements of Operations 30

Statements of Changes in Net Assets 31

Notes to Financial Statements 32

Schedule

Schedule of Investments 38

Report of Independent Auditors

**Pension Reserves Investment Management Board and Member
Systems of the Pension Reserves Investment Trust Fund**

We have audited the accompanying statements of assets and liabilities of the Pension Reserves Investment Trust Fund, including the schedule of investments, as of June 30, 1994 and 1993, and the related statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and schedule referred to above present fairly, in all material respects, the financial position of the Pension Reserves Investment Trust Fund at June 30, 1994 and 1993, and the results of its operations and the changes in its net assets for the years then ended in conformity with generally accepted accounting principles.

As explained in Note 2, the financial statements include real estate and alternative investments valued at \$635,426,769 and \$588,502,887 at June 30, 1994 and 1993, respectively, representing approximately 13% and 15%, respectively, of net assets, whose values have been estimated by the Pension Reserves Investment Management Board, with input from real estate and alternative investment managers and other advisers, in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board in arriving at its estimate of value of such investments and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

August 26, 1994

Ernst & Young LLP

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Statements of Assets and Liabilities June 30, 1994 and 1993

	Cash Fund	Capital Fund	Total 1994	1993
Assets				
Investments at market value (cost of \$4,821,639,033 and \$3,618,287,930 at June 30, 1994 and 1993, respectively):				
Equities		\$2,255,500,654	\$2,255,500,654	\$1,826,867,119
Fixed-income investments		457,447,727	457,447,727	468,779,563
U.S. government agency and treasury obligations		467,500,572	467,500,572	291,446,658
Money market investments	\$39,928,601	186,050,752	225,979,353	222,909,677
Real estate		194,585,225	194,585,225	252,109,838
Alternative investments		440,841,544	440,841,544	336,393,049
International investments		756,209,702	756,209,702	531,301,238
Total investments	39,928,601	4,758,136,176	4,798,064,777	3,929,807,142
Cash		10,793,941	10,793,941	6,823,125
Dividends and interest receivable	77,154	22,403,124	22,480,278	21,203,821
Receivable for investments sold		44,892,514	44,892,514	29,489,624
Other assets		84,035	84,035	44,593
Total assets	40,005,755	4,836,309,790	4,876,315,545	3,987,368,305
Liabilities				
Management fees payable		4,652,671	4,652,671	2,862,322
Payable for investments purchased		101,601,143	101,601,143	73,226,950
Other liabilities	92,406		92,406	4,187,902
Notes payable		29,461,995	29,461,995	29,725,918
Total liabilities	92,406	135,715,809	135,808,215	110,003,092
Commitments and contingencies				
Net assets				
Fund units	39,913,349	4,724,168,237	4,764,081,586	3,565,846,001
Net unrealized appreciation (depreciation) on investments		(23,574,256)	(23,574,256)	311,519,212
Total net assets	\$39,913,349	\$4,700,593,981	\$4,740,507,330	\$3,877,365,213

See accompanying notes.

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Statements of Operations

Years ended June 30, 1994 and 1993

	Cash Fund	Capital Fund	Total 1994	1993
Investment income:				
Interest	\$722,856	\$ 81,315,821	\$ 82,038,677	\$ 81,807,507
Dividends		31,785,202	31,785,202	39,556,033
Real estate income		16,627,033	16,627,033	16,216,483
Alternative investment income		13,279,919	13,279,919	3,743,122
Security lending income		1,002,561	1,002,561	838,371
Total investment income	722,856	144,010,536	144,733,392	142,161,516
Less:				
Management fees		19,879,020	19,879,020	19,623,329
Interest expense		2,088,874	2,088,874	2,128,882
Net investment income	722,856	122,042,642	122,765,498	120,409,305
Realized gain on investments		440,690,814	440,690,814	135,347,326
Unrealized appreciation (depreciation) on investments		(335,093,468)	(335,093,468)	203,097,000
Net gain on investments		105,597,346	105,597,346	338,444,326
Total	\$722,856	\$ 227,639,988	\$ 228,362,844	\$458,853,631

See accompanying notes.

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Statements of Changes in Net Assets

Years ended June 30, 1994 and 1993

	Cash Fund	Capital Fund	Total 1994	1993
Operating activities				
Net investment income	\$ 722,856	\$ 122,042,642	\$ 122,765,498	\$ 120,409,305
Realized gain on investments		440,690,814	440,690,814	135,347,326
Unrealized appreciation (depreciation) on investments		(335,093,468)	(335,093,468)	203,097,000
Increase in net assets resulting from operations	722,856	227,639,988	228,362,844	458,853,631
Distribution to member systems:				
Net investment income	(722,856)	(122,042,642)	(122,765,498)	(120,409,305)
Realized gain on investments		(440,690,814)	(440,690,814)	(135,347,326)
Total distributions to member systems	(722,856)	(562,733,456)	(563,456,312)	(255,756,631)
Fund unit transactions:				
System contributions	520,406,474	254,599,072	775,005,546	240,998,058
Net asset value of units issued to member systems for reinvestment of net investment income, realized gain and state appropriations	722,856	562,733,456	563,456,312	255,756,631
Full system redemptions		17,246,946	17,246,946	60,836,150
Partial system redemptions	62,509,737	60,469,590	122,979,327	121,135,633
Interfund transfers	(423,905,371)	423,905,371		
Net assets provided by fund unit transactions	34,714,222	1,163,521,363	1,198,235,585	314,782,906
Increase in net assets	34,714,222	828,427,895	863,142,117	517,879,906
Net assets at beginning of year	5,199,127	3,872,166,086	3,877,365,213	3,359,485,307
Net assets at end of year	\$ 39,913,349	\$4,700,593,981	\$4,740,507,330	\$3,877,365,213

See accompanying notes.

Pension Reserves Investment Trust Fund

Notes to Financial Statements

June 30, 1994

1. Description of the Pension Reserves Investment Trust Fund

The Pension Reserves Investment Trust Fund (PRIT) was created in 1984 by the Commonwealth of Massachusetts through legislation (Chapter 661 of the Acts of 1983, as amended by the Acts of 1987) and is the investment portfolio for the assets of member state and local retirement systems. The Pension Reserves Investment Management Board (the Board) was created by the same legislation to manage PRIT. The Board, a component unit of the Commonwealth of Massachusetts, is governed by a nine-member board of trustees. The trustees include the governor, ex officio, or his designee; the state treasurer, ex officio, or his designee, who serves as chairman of the board; two appointees of the governor; two appointees of the state treasurer; a state teachers' retirement system representative, elected by the members of that system; a state employees' retirement system representative, elected by the members of the system; and the commissioner of Public Employee Retirement Administration (PERA). PRIT is also a component unit of the Commonwealth of Massachusetts.

Systems joining PRIT have the option of being Participating or Purchasing Systems. The Participating Systems include the State Employees' and the State Teachers' Retirement Systems. The remaining Participating and Purchasing systems are Massachusetts authorities, counties, cities and towns. Participating Systems other than the State Employees' and State Teachers' Retirement Systems must transfer all of their retirement system assets to PRIT. Purchasing Systems may allocate a certain amount of their assets to the Fund, thus retaining control over a portion of their assets and having the ability to contribute and withdraw funds at their discretion. Purchasing Systems and Participating Systems share in the investment earnings of PRIT based on their proportionate share of net assets (see Note 2). During fiscal 1993, two Participating and four Purchasing Systems left PRIT and one system changed from a Participating to a Purchasing System. As of June 30, 1993, there were 15 Participating Systems and 11 Purchasing Systems. During fiscal 1994, one purchasing system joined PRIT. As of June 30, 1994, there were 15 Participating Systems and 12 Purchasing Systems.

Pursuant to the terms of the enabling legislation, any balance remaining in the investment income accounts of the State Employees' and State Teachers' Retirement Systems shall be transferred to PRIT. Each system, once it has completed its annual report, is required to transfer these funds, known as "excess earnings," to PRIT on an annual basis. The State Employees' Retirement System is current in its excess earning payments to PRIT. As of June 30, 1994, the State Teachers' Retirement System has transferred a majority of its excess earnings for calendar years 1991-1993. Payments for the remaining portion of excess earnings are anticipated within fiscal 1995.

PRIT consists of two funds, the Capital Fund and the Cash Fund. The Capital Fund serves as the long-term asset portfolio. The portfolio asset allocation plan includes equities, fixed-income investments, money market investments, international investments, real estate and other alternative investments. The Cash Fund consists of short-term investments which are used to meet the liquidity requirements of the various Participating and Purchasing Systems.

2. Summary of Significant Accounting Policies

Valuation of Investments

Security transactions are recorded on the trade date of the securities purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a member system, the market value of the securities on the transfer date. The Capital Fund is valued at month end, while the Cash Fund is valued daily.

Investments in bonds and U.S. government agency and treasury obligations are valued by an independent pricing service. In determining the price, the service reflects such factors as security prices, yields, maturities and ratings, supplemented by dealer quotations. Money market and other short-term investments, both domestic and international, are recorded using the amortized cost method, which approximates market value. Domestic and international investments in equity securities traded on national securities exchanges are valued at the last sale price or, if no sale price is available, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter bid prices. Investments in real estate are valued by the Board, with input from the real estate managers and other advisers, at estimated values. Alternative investments include venture capital, leveraged buyouts, private placements and other investments where the structure, risk profile and return potential differ from traditional equity and fixed income investments. These investments are also included in the balance sheets at estimated values determined by the Board with input from the alternative investment managers.

Dividend income is recorded on the ex-dividend date and interest income is recorded when earned.

Concentrations of credit risk exist if a number of companies in which the Fund has invested are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate its exposure to concentrations of credit risk, PRIT invests in a variety of industries located in diverse geographic areas.

Gains and losses from sales of investments are calculated on the average cost method.

Unrealized net currency gains and losses from valuing foreign currency-denominated assets and liabilities and foreign equity securities at period-end exchange rates are reflected as a component of net unrealized appreciation (depreciation) on investments. For financial reporting purposes, it is not practicable to isolate that portion of the results of operations arising as a result of changes in foreign exchange rates from the fluctuations arising from changes in the market price of securities during the period.

Fund Units

Capital Fund

The number of units resulting from the initial transfer of a retirement system's assets to PRIT or from the subsequent sales or repurchases of units is calculated by dividing the market value of the assets involved by the unit price at the end of the month.

Net investment income and net realized gains are reinvested in units at the end of each month as follows:

- Net investment income and net realized gains for the month are allocated among the Systems, based on their proportionate share of the net assets at the beginning of the month.

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

- The allocated portions are then divided by the beginning-of-the month unit price, adjusted for the change in unrealized appreciation (depreciation) of investments during the current month, to determine each system's incremental number of units.
- If the Capital Fund incurs net realized losses, the losses are allocated among the Systems using the same method as for gains, thereby reducing the number of units held by each system.

Cash Fund

Sales and repurchases of units by the Systems are recorded in the Cash Fund on the trade date at the Fund's daily price of \$1.00 per unit. Net investment income is allocated daily among the Systems based on their proportionate share of net assets and is reinvested in units at month end.

3. Management Fees

In accordance with the Board's operating trust, all expenses incurred by the Board in managing PRIT are charged to PRIT in the form of management fees. These expenses consist of investment manager, advisory, custodian and other professional fees, salaries and other operating expenses of the Board.

Investment Managers

Investment management fees are paid to all of the Board's discretionary external managers pursuant to written contracts. The fees for equity and fixed-income managers are calculated and paid on a quarterly basis. In most cases, equity managers are paid on a "performance fee" basis. A "performance fee" is characterized by a low base fee, with an incremental fee paid on a quarterly basis in the event a manager outperforms the contractual benchmark. Fixed-income managers are generally paid on an asset-based fee basis with no performance component.

Real estate management fees are structured differently. The "open" and "closed-end" funds charge fees that are based on net asset value. The separate account relationships which PRIT has negotiated are typified by a base fee during the holding period of the investment, with a performance fee component paid when the original investment is terminated or otherwise restructured.

Alternative investment managers generally charge fees during the investment holding period based on total assets committed. Fees are payable commencing on the date that the partnership closes.

Investment manager fees totaled approximately \$17,690,000 and \$16,900,000 for the years ended June 30, 1994 and 1993, respectively.

Investment Advisors

Wilshire Associates, Inc., Morris & Morse Company, Inc., The Boston Financial Group Limited Partnership and Lewis, Bailey Associates, Inc. serve as the Board's pension investment advisors. These consultants provide the Board with comprehensive pension investment advisory services, including recommendations on asset allocations, selection of investment managers, and the measurement of external and internal performance of PRIT and the individual investment managers.

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

As compensation for their services, these consultants received fees aggregating approximately \$360,000 and \$330,000 for the years ended June 30, 1994 and 1993, respectively.

Custodian

State Street Bank and Trust Company (State Street) is the PRIT investment custodian and record-keeper. State Street records all daily transactions for PRIT, including investment sales and purchases, investment income, expenses incurred by PRIT and all fund unit activity for the PRIT member systems. State Street also provides portfolio performance analysis. PRIT entered into a three-year contract with State Street for custody services, effective April 1, 1993. The contract calls for a flat fee. Prior to this contract, State Street was paid an annual asset fee based on the market value of the PRIT Fund.

State Street's compensation totaled approximately \$ 586,000 and \$1,380,000 for the years ended June 30, 1994 and 1993, respectively.

Other Fees

The remaining management fees, approximating \$ 1,243,000 and \$1,013,000 for the years ended June 30, 1994 and 1993, respectively, were reimbursements of the Board's operating expenses, including employee compensation, professional fees and occupancy costs.

4. Notes Payable

Notes payable, consisting of variable and fixed rate notes, are summarized as follows:

	1994	1993
10% mortgage secured by interest in certain property owned by the Fund, payable in monthly installments of \$144,000 through August 1, 2006.	\$14,461,995	\$14,725,918
Note secured by interest in a certain partnership owned by the Fund, maturing November 30, 1994 and bearing interest at a rate of LIBOR plus .65%. The LIBOR rates in effect at June 30, 1994 and 1993, respectively, were 3.9% and 3.4%.	15,000,000	15,000,000
Total notes payable	<u>\$29,461,995</u>	<u>\$29,725,918</u>

The fair values of these notes have not been separately determined, but, rather, the notes have been considered in determining the values of the underlying real estate investments to which they relate.

Principal payments required under these notes are as follows:

1995	\$15,368,426
1996	327,054
1997	365,242
1998	403,487
1999	445,796
Thereafter	<u>12,551,990</u>
	<u>\$29,461,995</u>

5. Purchases and Sales of Investments

During the year ended June 30, 1994, the cost of investments purchased and the proceeds from investments sold within the Capital Fund were \$9,004,625,198 and \$8,198,528,803 respectively. During the year ended June 30, 1993, the cost of investments purchased and the proceeds from investments sold within the Capital Fund were \$6,461,359,610 and \$5,883,992,054, respectively.

6. Commitments and Contingencies

As of June 30, 1994, PRIT had outstanding commitments to invest \$281 million in real estate, \$18 million in venture capital and \$208 million in special equity investments. The fair value of the commitments approximate their stated value.

7. Security Lending Program

PRIT participates in State Street's security lending program. Under this program, PRIT receives a fee for allowing brokerage firms to borrow from PRIT certain securities for a predetermined period of time, securing such loans with cash collateral typically equaling 102% of the market value of the security borrowed on domestic securities and 105% on international securities. All collateral is held by State Street. At June 30, 1994 and 1993, the market value of the securities on loan was approximately \$456 million and \$317 million, respectively. These securities are included in investments at market value as of June 30, 1994 and 1993 in the accompanying balance sheet.

8. State Appropriations

To attract municipal retirement systems to join PRIT at its inception in 1984, the Commonwealth of Massachusetts (the State) agreed to reimburse the retirement systems for the unrealized losses in their respective investment portfolios at the date they transferred their assets to PRIT. In both fiscal years 1994 and 1993, the State contributed \$272,304 representing the State appropriations for the previous fiscal year, which was distributed to the six eligible retirement systems that joined PRIT on or before July 1, 1986.

9. Forward Contracts and Other Financial Investments with Off-Balance Sheet Risk

PRIT enters into forward exchange currency contracts to hedge its exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. A foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss measured as the difference between the foreign exchange rate as of the date of inception of the contract and the rate as of the date when the contract is closed is included in net realized gains on investments. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The following table identifies the gross foreign currency contract amounts at market value as of June 30, 1994:

	Market Value at June 30 1994	Net Unrealized and Realized Gain
Forward contracts to:		
Purchase foreign currency	\$312,615,875	\$13,104,316
Sell foreign currency	377,472,417	17,412,940

PRIT is also engaged in selling or "writing" options. As a writer of options, PRIT receives a premium at the outset and then bears the risk of an unfavorable change in the price of the

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

financial instrument underlying the option. Written options are carried at market value and are classified as a liability of the fund. The gain or loss arising from the difference between the premiums received and the market value of the option at June 30, 1994 is included in net gain on investments. At June 30, 1994, the market value of options written was \$689,000.

10. Fund Units

Capital Fund units outstanding at June 30, 1994 and 1993 were 4,051,220,927 and 3,110,780,744 respectively. Cash Fund units outstanding at June 30, 1994 and 1993 were 39,913,349 and 5,199,127, respectively. Total net assets as of June 30, 1994 and 1993 are equivalent to \$ 1.16 and \$ 1.25 per Capital Fund unit, respectively, and \$ 1.00 per Cash Fund unit.

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Schedule of Investments

June 30, 1994

Shares/Par Value	Description	Cost	Market Value
DOMESTIC INVESTMENTS			
<u>Equities</u>			
1,594,753	Basic industries	\$ 37,913,900	\$ 40,660,60
2,381,347	Capital goods	49,023,671	50,796,67
4,981,359	Consumer basics	109,130,735	118,328,01
1,643,667	Consumer durable goods	46,739,634	46,613,01
3,062,324	Consumer nondurable goods	69,452,949	70,991,09
2,097,217	Consumer services	39,693,867	40,573,91
1,746,614	Energy	52,042,427	53,894,11
16,907,477	Finance	300,933,027	344,138,79
2,661,591	General business	51,407,508	54,198,31
308,155	Shelter	9,365,095	7,811,37
5,237,290	Technology	125,893,871	133,391,68
718,103	Transportation	21,128,886	20,405,41
2,862,145	Utilities	84,064,269	82,076,57
938,438,227	Miscellaneous	1,236,875,456	1,191,621,09
TOTAL EQUITIES		2,233,665,295	2,255,500,68
<u>Fixed-Income Investments</u>			
Corporate Bonds:			
\$ 86,816,441	Financing and Banking with rates ranging from 1.0% to 15.625% and maturities ranging from 1995 to 2024.	85,967,712	81,623,41
\$100,164,000	Industrials with variable and fixed rates ranging from 1.0% to 16.5% and maturities ranging from 1993 to 2022.	92,077,728	92,352,01

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Schedule of Investments (continued)

Shares/Par Value	Description	Cost	Market Value
\$ 35,788,000	Utilities with fixed and variable rates ranging from 1.0% to 15% and maturities ranging from 1994 to 2026.	\$ 28,162,939	\$ 27,565,173
\$ 8,680,000	Transportation with rates ranging from 5% to 12.875% and maturities from 1994 to 2003.	8,870,083	8,525,950
\$112,250,373	Miscellaneous/other with rates ranging from 1.0% to 15.25% and maturities from 1994 to 2023.	101,651,024	96,918,214
TOTAL CORPORATE BONDS		316,729,486	306,984,859
\$ 7,517,143	Asset-backed securities with rates ranging from 6% to 8.75% and maturities from 1995 to 2000.	7,884,163	7,685,865
\$ 72,769,241	Convertible Bonds with rates ranging from 1.01% to 11.25% and maturities from 1995 to 2015.	56,777,597	55,702,411
\$ 53,769,122	Collateralized Mortgage Obligations with rates ranging from 1.0% to 15.53% and maturities from 2003 to 2032.	52,336,353	48,930,525
\$ 57,982,479	Other Marketable Mortgage obligations with rates ranging from 8.75% to 21% and maturities ranging from 2003 to 2029.	40,200,924	38,144,067
TOTAL OTHER FIXED-INCOME INVESTMENTS		157,199,037	150,462,868
TOTAL FIXED-INCOME INVESTMENTS		473,928,523	457,447,727

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Schedule of Investments (continued)

Shares/Par Value	Description	Cost	Market Val
U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS			
\$169,496,528	U.S. Government sponsored and guaranteed with rates ranging from 1.0% to 11.7% and maturities ranging from 1993 to 1994.	\$ 160,573,869	\$ 152,840
\$ 16,171,290	Federal Agency securities with rates ranging from 4.375% to 11.5% and maturities ranging from 1993 to 2023.	16,380,452	15,625
\$405,471,000	United States Treasury Bonds/Notes with rates ranging from 1.0% to 12.375% and maturities ranging from 1995 to 2023.	310,450,622	299,034
TOTAL U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS		487,404,943	467,500
MONEY MARKET INVESTMENTS			
\$209,589,092	State Street Short-Term Investment Fund	201,221,627	201,221
\$ 62,589,994	Miscellaneous Money Market Investments	24,868,065	24,751
TOTAL MONEY MARKET INVESTMENTS		226,089,692	225,971

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Schedule of Investments (continued)

Shares/Par Value	Description	Cost	Market Value
REAL ESTATE			
	Commingled funds	\$ 163,816,451	\$ 104,562,415
	Separate accounts	193,145,674	90,022,810
	TOTAL REAL ESTATE	356,962,125	194,585,225
ALTERNATIVE INVESTMENTS			
	Venture Capital	90,683,586	99,158,215
	Special Equity	242,415,498	341,683,329
	TOTAL ALTERNATIVE INVESTMENTS	333,099,084	440,841,544
INTERNATIONAL INVESTMENTS			
	<u>Equities</u>		
10,057,789	Basic industries	43,662,615	47,139,680
11,600,778	Capital goods	59,661,809	68,061,972
11,116,627	Consumer basics	44,339,090	47,527,286
3,535,960	Consumer durable goods	21,313,342	24,508,086
6,852,498	Consumer nondurable goods	36,591,553	39,321,646
4,165,846	Consumer services	9,292,221	11,298,619
10,804,005	Energy	23,570,002	24,228,479
13,250,260	Finance	51,265,813	56,387,358
3,732,091	General business	31,890,123	33,933,812
4,067,917	Shelter	22,666,166	26,863,069
3,828,344	Technology	22,192,808	28,145,732
1,979,752	Transportation	8,522,096	9,077,529
4,826,471	Utilities	24,284,481	29,081,789
70,578,892	Miscellaneous	53,316,532	58,013,042
	TOTAL EQUITIES	452,568,651	503,588,099

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Schedule of Investments (continued)

Shares/Par Value	Description	Cost	Market Value
<u>Foreign Government Treasury Obligations</u>			
31,872,162,000	Government and Supranational with rates ranging from 1.0% to 17% and maturities ranging from 1995 to 2023.	\$ 187,239,751	\$ 183,814,68
<u>Fixed Income</u>			
987,279,492	Foreign Corporate Bonds with rates ranging from 1.0% to 12.5% and maturities from 1997 to 2026.	70,680,969	68,806,91
	TOTAL INTERNATIONAL INVESTMENTS	710,489,371	756,209,70
	TOTAL INVESTMENTS	\$4,821,639,033	\$4,798,064,77

A detailed portfolio listing is available for review at the offices of the Pension Reserves Investment Management Board.

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Schedule of Investments

June 30, 1993

Shares/Par Value	Description	Cost	Market Value
DOMESTIC INVESTMENTS			
<u>Equities</u>			
2,178,317	Basic industries	\$ 56,879,025	\$ 63,977,282
2,039,877	Capital goods	52,479,767	75,651,573
8,153,222	Consumer basics	190,840,077	249,627,040
1,425,752	Consumer durable goods	38,676,821	51,464,906
4,720,671	Consumer nondurable goods	100,433,590	140,549,873
1,693,373	Consumer services	33,866,748	48,356,252
2,448,040	Energy	92,431,832	111,145,739
15,998,142	Finance	292,629,672	373,467,093
2,596,057	General business	60,060,731	74,151,820
524,506	Shelter	14,353,280	19,684,636
4,421,605	Technology	123,938,440	149,420,308
465,692	Transportation	13,273,655	20,995,672
4,621,743	Utilities	123,234,810	189,224,010
32,393,869	Miscellaneous	230,091,106	259,150,915
TOTAL EQUITIES		1,423,189,554	1,826,867,119
<u>Fixed-Income Investments</u>			
Corporate Bonds:			
\$ 86,816,441	Financing and Banking with rates ranging from 4.25% to 18.5% and maturities ranging from 1993 to 2016.	80,082,359	82,908,390
\$ 71,366,899	Industrials with variable and fixed rates ranging from 5.875% to 18% and maturities ranging from 1995 to 2021.	67,150,429	72,846,422

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Schedule of Investments (continued)

Shares/Par Value	Description	Cost	Market Value
\$ 22,983,000	Utilities with fixed and variable rates ranging from 4.23% to 14.5% and maturities ranging from 1993 to 2026.	\$ 22,718,228	\$ 23,177,813
\$ 9,010,000	Transportation with rates ranging from 5% to 12.875% and maturities from 1994 to 2003.	9,489,673	9,526,515
\$ 99,224,511	Miscellaneous/other with rates ranging from 5% to 16.75% and maturities from 1993 to 2023.	80,072,005	84,916,725
TOTAL CORPORATE BONDS		259,512,694	273,375,865
\$ 13,209,592	Asset-backed securities with rates ranging from 6% to 8.75% and maturities from 1995 to 2000.	14,073,188	14,342,750
\$ 54,170,000	Convertible Bonds with rates ranging from 2% to 9.37% and maturities from 1995 to 2015.	39,909,344	42,528,460
\$ 56,470,788	Collateralized Mortgage Obligations with rates ranging from 5.15% to 11.5% and maturities from 1999 to 2032.	57,026,230	59,424,415
\$ 76,839,836	Other Marketable Mortgage obligations with rates ranging from 8.75% to 21% and maturities ranging from 2001 to 2030.	74,909,534	79,108,073
TOTAL OTHER FIXED-INCOME INVESTMENTS		185,918,296	195,403,698
TOTAL FIXED-INCOME INVESTMENTS		445,430,990	468,779,563

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

Pension Reserves Investment Trust Fund

Schedule of Investments (continued)

Shares/Par Value	Description	Cost	Market Value
U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS			
\$ 96,090,658	U.S. Government sponsored and guaranteed with rates ranging from 6% to 13.5% and maturities ranging from 1995 to 2023.	\$ 99,334,717	\$ 101,203,707
\$ 16,171,290	Federal Agency securities with rates ranging from 4.375% to 11.5% and maturities ranging from 1993 to 2023.	24,961,938	25,870,490
\$187,125,769	United States Treasury Bonds/Notes with rates ranging from 3.875% to 12.375% and maturities ranging from 1993 to 2021.	154,374,491	164,372,461
TOTAL U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS		278,671,146	291,446,658
MONEY MARKET INVESTMENTS			
\$209,589,092	State Street Short-Term Investment Fund	209,989,092	209,989,092
\$ 12,920,585	Miscellaneous Money Market Investments	12,920,585	12,920,585
TOTAL MONEY MARKET INVESTMENTS		222,909,677	222,909,677

Pension Reserves Investment Trust Fund

Schedule of Investments (continued)

Shares/Par Value	Description	Cost	Market Value
REAL ESTATE			
	Commingled funds	\$ 267,847,715	\$ 137,857,304
	Separate accounts	212,932,499	114,252,534
	TOTAL REAL ESTATE	480,780,214	252,109,838
ALTERNATIVE INVESTMENTS			
	Venture Capital	84,705,966	94,320,180
	Special Equity	194,811,429	242,072,869
	TOTAL ALTERNATIVE INVESTMENTS	279,517,395	336,393,049
INTERNATIONAL INVESTMENTS			
<u>Equities</u>			
4,189,862	Basic industries	9,759,074	9,697,113
6,166,412	Capital goods	23,024,209	27,741,215
5,502,846	Consumer basics	44,496,741	47,682,367
753,153	Consumer durable goods	8,240,386	9,184,818
4,623,277	Consumer nondurable goods	33,024,173	34,543,211
4,000,285	Consumer services	4,638,763	6,097,569
860,736	Energy	3,968,916	4,113,568
9,955,857	Finance	42,303,107	50,086,626
2,554,907	General business	16,670,485	18,258,550
2,096,208	Shelter	15,914,417	16,709,012
2,249,715	Technology	10,170,181	11,774,037
647,550	Transportation	2,568,206	2,474,402
6,825,110	Utilities	28,653,041	35,626,158
63,592,434	Miscellaneous	40,166,327	47,170,258
	TOTAL EQUITIES	283,598,026	321,158,904

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1994

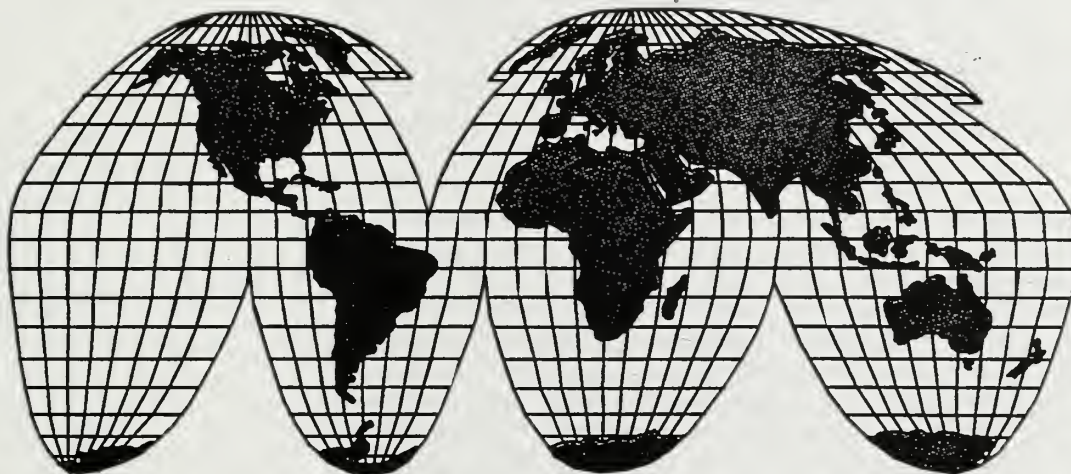
Pension Reserves Investment Trust Fund

Schedule of Investments (continued)

Shares/Par Value	Description	Cost	Market Value
<u>Foreign Government Treasury Obligations</u>			
	Government and Supranational with rates ranging from 4.5% to 13.45% and maturities ranging from 1995 to 2023.	\$ 177,884,086	\$ 183,218,038
<u>Fixed Income</u>			
	Foreign Corporate Bonds with rates ranging from 3.625% to 17% and maturities from 1995 to 2023.	26,306,842	26,924,296
	TOTAL INTERNATIONAL INVESTMENTS	487,788,954	531,301,238
	TOTAL INVESTMENTS	\$3,618,287,930	\$3,929,807,142

A detailed portfolio listing is available for review at the offices of the Pension Reserves Investment Management Board.

MASS. RR 38.1:995



PRIM: The Next Ten Years



GOVERNMENT DOCUMENTS
COLLECTION

OCT 20 1998

University of Massachusetts
Library Copy

Annual Report

For the Fiscal Year Ending June 30, 1995

PENSION RESERVES INVESTMENT TRUST FUND



MESSAGE FROM THE CHAIRMAN

October 24, 1995

Dear Participants and Purchasers:

On behalf of the Pension Reserves Investment Management Board ("PRIM"), I am pleased to present the fiscal year 1995 Annual Report. During the first four years of my administration, the PRIM Board focused its efforts on the turn-around of the Fund's performance, restoring it to national prominence. With that success behind us, this year I have focused on achieving better efficiency and positioning the Pension Reserves Investment Trust ("PRIT") Fund for *The Next Ten Years* of operation.

In preparation for the future, my primary effort this year was eliminating redundancies and unnecessary costs in the operation of our pension system. In 1984 when the Pension Reserves Investment Management Board ("PRIM") was created, the challenge of closing the unfunded liability of the state pension system was daunting. Eleven years later, the Fund and the Commonwealth have made substantial progress; however, the challenge is still significant. On June 30, 1995 the PRIT Fund had assets of roughly \$6 billion. The other state-wide pension fund, Massachusetts State Teachers and Employees Retirement Systems Trust ("MASTERS"), had about \$8 billion. The combined assets of \$14 billion are to be used to meet the benefit payments of retirees. However, the total future benefit obligation of the pension system is approximately \$20 billion (today's value). To close this gap the pension funds must continue to maximize their returns and operate as efficiently as possible.

In April 1994, I proposed to merge the two pension funds -- PRIT and MASTERS. In April of 1995, a bill was filed in the House of Representatives, H.2264, to combine the assets of both funds under the management of the PRIM Board. It is my strong belief that the PRIM structure offers the most effective representation of beneficiaries, elected officials and taxpayers. I have therefore offered to transfer the control of the \$8 billion of MASTERS' assets that currently reside in the Treasurer's office to the independent Board of PRIM. The objective benefits of the merger are numerous -- we determined that about \$12 to \$15 million could be saved in expenses the first year, and these savings would grow to \$100 million over five years. The savings are achieved by eliminating a duplicative organization, eliminating inefficiencies in operations and capitalizing on economies of scale. Perhaps more important, although difficult to quantify, will be the benefit of investing the two funds with the maximum coordination for better performance. The merger bill has been approved by the House of Representatives and is currently being reviewed by the Senate.

My second initiative was to wring any unnecessary expenses out of the system, even before the merger. For example, during this fiscal year, the PRIM Board and MASTERS implemented a new

procedure for transferring assets between the funds. State law requires MASTERS to transfer moneys (referred to as excess earnings) to PRIM on an annual basis. In the past, MASTERS transferred cash to PRIM, an inefficient and costly method. This year, a large part of the \$734 million excess earnings was transferred as securities, saving the pension funds an estimated \$6 million in transaction costs. Additionally, both funds remained fully invested and captured strong market performance.

The assets transferred from MASTERS included all of its real estate and alternative investments. These investments were placed in the PRIT Fund segregated accounts purely for the benefit of state teachers and state employees. This consolidated management method will significantly reduce the cost of managing these accounts.

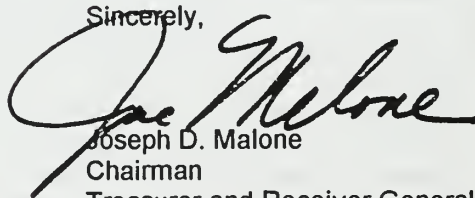
As part of our efforts to position the PRIT Fund for *The Next Ten Years*, the Board restructured the public market portfolio, reducing the number of portfolios by 20%, re-negotiating management contracts and implementing new performance fees, which collectively will save an estimated \$1.5 million annually in management fees. All of this was accomplished while maintaining diversification and focusing the portfolio on areas we expect to perform well in the future.

During the year, PRIM committed to a new venture capital investment that promises a variety of benefits for the state. PRIM and MASTERS each invested \$25 million with Commonwealth Capital Partners, a venture capital fund that will pursue investments in Massachusetts only. We expect the partnership will generate strong market returns while enhancing the economic life of Massachusetts; our analysis was validated when the Bank of Boston also committed \$10 million to this venture.

We extend our appreciation to all of our investing systems. Most of you have been committed through the years and have benefited from our long term performance. For our new systems, we appreciate your vote of confidence.

In conclusion, we feel well positioned for *The Next Ten Years* of our operations. Our effective and dedicated staff and committed Board and subcommittee members are well prepared for the future challenges.

Sincerely,



Joseph D. Malone
Chairman
Treasurer and Receiver General

MESSAGE FROM THE EXECUTIVE DIRECTOR

October 24, 1995

Dear Participants and Purchasers:

It is with great pleasure and optimism that I present the fiscal year 1995 Annual Report of the Pension Reserves Investment Trust ("PRIT") Fund. We can present another positive report as the PRIT Fund is able to deliver a robust performance and staff is positioning the Fund for our *Next Ten Years* of operation.

The Fund generated strong returns in fiscal 1995. Although the first six months were modest, the public securities markets, primarily domestic securities, came back strongly. For the fiscal year, the Fund generated returns of 14.92%. Domestic equities performed best, contributing 24.41%; fixed income securities, both domestic and international, also performed well, with returns of 12.39% and 12.36%, respectively. The two poorest performing public securities asset classes were the tactical asset allocator at 0.52% and international equities at 0.94%. Real estate maintained its consistent and stable return contributing 9.93%, and alternative investments, which had a relative slump, contributed 7.20%. Over longer periods, the Fund generated impressive annualized returns of 11.80% for 3 years, 8.56% for 5 years, and 11.27% since its inception eleven years ago.

During the year, the PRIM Board voted to restructure the public market portfolio, reducing the number of portfolios by 20%. In the beginning of the fiscal year, PRIM had 35 portfolio managers working on 18 different sub-asset classes/disciplines. We have reduced the number of portfolios to 26 with 15 sub-asset classes/disciplines. We determined that the relatively large number of managers was driving the portfolio beyond optimal diversification, resulting in performance that largely mirrored the various indices or benchmarks. By eliminating some of the redundancy in portfolios, we can maintain diversification, reduce expenses, more effectively monitor the managers, and potentially improve performance over the benchmark/index. For example, we reduced our four international equity portfolios to two, and combined our separate international and global fixed income discipline into a single global fixed income discipline. In addition, our new structure should save an estimated \$1.5 million annually in management fees. The PRIM Board also allocated more funds to three asset classes -- small cap equities, emerging market equities, and high yield bonds. This move will help the overall portfolio reflect the broad market allocation and prepare for future opportunities. On the real estate side, we hired four new managers to implement our new \$400 million core investment strategy. We also selected a new consultant, Townsend, to assist us in our future investments.

On the administration and client service sides, we continue to focus on greater effectiveness and efficiency for *The Next Ten Years*. We reviewed our auditors contract, and issued a request for proposal for service. After careful analysis, the Board selected a new auditor, Coopers & Lybrand, to assist the Fund through our next stage of growth. As you will note from the accompanying audit, they have provided a thorough review of operations and the financial status of the PRIT Fund. On the traditional operating side, we continue to push ahead to establish segmentation of the Fund: the ability of purchasing systems to invest selectively in different asset classes. We are developing a computer network to allow our client systems to tie into PRIM electronically. We have also implemented the new "plan accounting" system to provide more detailed information on the portfolio. Finally, we have further reduced the total operating costs of the Fund to 41 basis points (or 0.41%) from 46 basis points last year and the high of 62 basis points in fiscal 1992.

We extend our appreciation to all of our investing systems. According to the PERA report for the period ending December 31, 1994, PRIT produced impressive relative performance which resulted in most of our systems ranking among the top quartile of Massachusetts retirement systems. Furthermore, for the complete fiscal year, you have benefited from our high exposure to domestic equities. We will continue our efforts on your behalf to position the Fund for *The Next Ten Years*.

Sincerely,



Gregory A. White
Executive Director

PRIT FUND FINANCIAL SUMMARY AND PERFORMANCE SUMMARY

Financial Summary	Yr. Ending June 30, 1995	Yr. Ending June 30, 1994
Cash	\$50,431,445	\$10,793,945
Investments	6,176,179,590	4,798,064,777
Receivables & Other Assets	<u>57,896,067</u>	<u>67,456,827</u>
Total	<u>\$6,284,507,098</u>	<u>\$4,876,315,545</u>
Payable for Investment Purchase	62,156,859	101,601,143
Notes Payable	15,375,642	29,461,995
Management Fee Payable & Other	17,082,958	<u>4,745,077</u>
Total Liabilities	<u>\$94,615,459</u>	<u>\$135,808,215</u>
Fund Units	5,598,912,072	4,764,081,586
Undistributed Net Investment Income	65,336,297	--
Undistributed Net Realized Capital Gains	107,614,322	--
Net Unrealized Appreciation (Depreciation) on Investments	<u>419,278,947</u>	<u>(23,574,256)</u>
Total Net Assets	<u>\$6,191,141,638</u>	<u>\$4,740,507,330</u>
One Year Return	14.92%	6.21%
Return Since Inception	11.27%	10.80%
Operating Expenses as % of Fund	0.41%	0.46%

Performance Summary - Year Ending June 30, 1995					
Component of Portfolio	PRIT 1 Year	Index 1 Year	PRIT 3 Year	Index 3 Year	Index
Domestic Equity	24.41%	26.07%	14.05%	13.66%	S&P 500
International Equity	0.94%	1.65%	10.62%	11.93%	Morgan Stanley EAFE
Global Manager (T.A.A.)	0.52%	10.67%	12.51%	12.51%	MSCI World Index
Domestic Fixed Income	12.39%	12.55%	8.79%	7.48%	Lehman Brothers Agg.
International Fixed Income	12.36%	18.58%	8.31%	12.58%	Salomon Bros. WGB
Real Estate	9.93%	7.09%	4.24%	1.62%	Russell NCREIF Real Estate Index
Alternative Investments	7.20%	30.00%	17.31%	18.16%	S&P 500 + 450 bp
Total PRIT Fund	14.92%	16.40%	11.80%	10.70%	TUCS Public Fund Median

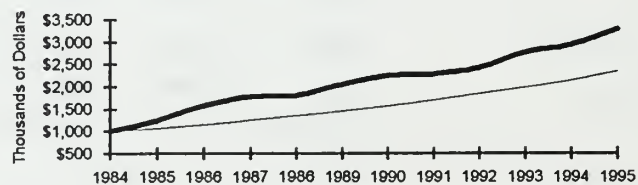
PRIM -- THE NEXT TEN YEARS

Last year, the Pension Reserves Investment Management Board ("PRIM") celebrated its tenth anniversary, and in the annual report we highlighted the development of PRIM and its accomplishments past and present. This year, we will focus on the future: where we perceive PRIM will be in *The Next Ten Years*, and how the Pension Reserves Investment Trust Fund ("PRIT" or the "Fund") is positioned to meet the challenges and opportunities yet to come.

The funding schedule

The Pension Reform Act of 1987 established long-term and short-term funding targets for the Commonwealth's public employee retirement systems. Over the long-term, the state funding plan requires that all retirement systems' unfunded liabilities be fully funded by the end of fiscal year 2028. To meet this goal, Massachusetts must maintain an aggressive funding schedule and the Fund must achieve or exceed the targeted actuarial rate of return. According to the recently approved state funding schedule, over the next ten years (fiscal 1996 through fiscal 2005), the Commonwealth's pension funding obligation will total approximately \$12.6 billion. Even with this sizable commitment, unless the state increases its funding or the Fund substantially exceeds its actuarial targeted rate of return, the unfunded actuarial liability will grow from the current \$11.1 billion to \$13.5 billion. It is, therefore, imperative that PRIT and the other state-wide pension fund produce returns that equal or exceed the actuarial rate of return target of 8.0% annually.

Growth of Investment *



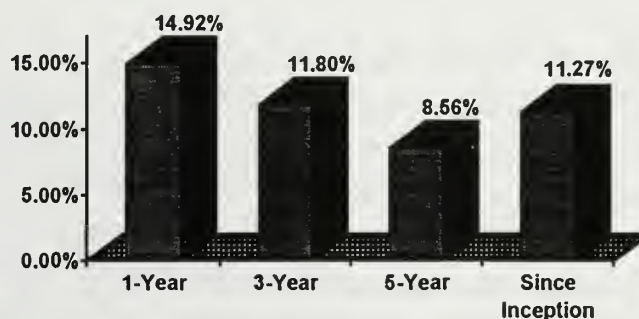
*Note: Return in this report is gross of fees.

PRIT Fund 11.27%
Actuarial Target 8.0%

One million dollars invested in the PRIT Fund at its inception in 1984 grew at an annual rate of 11.3% to \$3.29 million eleven years later, exceeding the actuarial target of 8.0% (which would have generated only \$2.36 million in 1995).

Since many investment professionals predict that the 1990's will be the "single digit decade", exceeding the 8.0% target may be one of the major challenges confronting PRIM. Through fiscal year 1995, the PRIT Fund's annualized return since inception has been a strong 11.3%. It is unlikely that the domestic markets will maintain their recent strong performance throughout the remainder of this decade. Accordingly, the key to achieving, and perhaps exceeding, the 8.0% actuarial return assumption will be the PRIT Fund's strategic asset allocation and the diversification within those asset classes.

PRIT Fund Performance for Periods Ending 6/30/95

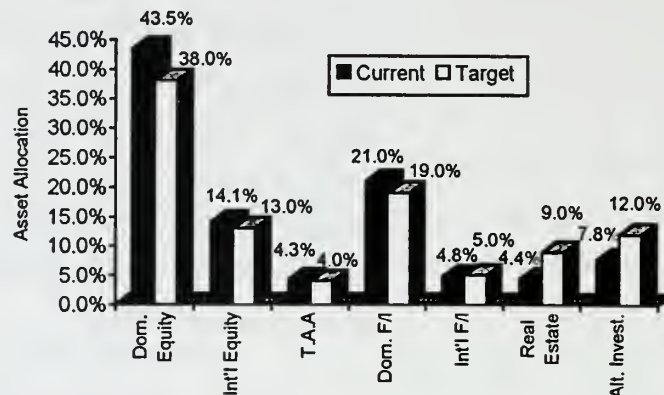


The short-term funding requirements will create an important change in the way Massachusetts funds its pension obligations. Currently, the Commonwealth appropriates pension payments directly to the pension beneficiaries, a "pay-as-you-go" method. Beginning in fiscal year 1999, the Commonwealth will commence payments to the PRIT Fund, specifically, the Commonwealth Pension Liability Fund (CPLF), in accordance with an established actuarial funding schedule, and disbursements will be made from the Fund to the beneficiaries.

Long-term asset allocation

How is the Fund positioned to meet this challenge? PRIM's long-term asset mix -- 38% domestic equities, 17% international equities (to include T.A.A.), 19% domestic fixed income, 5% global fixed income, 9% real estate, and 12% alternative investments (buy-outs and venture capital) -- is expected to produce an annual return of 9.5% over a five to ten year horizon.

PRIT Fund: Current vs. Target Asset Allocation



PRIM continues to make significant commitments to both alternative investments and real estate in order to move closer to the long-term allocation targets. However, because of the inherent delay between making a commitment and actually investing the funds, the alternative investments and real estate asset classes are currently underweighted. Although the consequent overweighting in the public markets has been beneficial during the recent surge in the domestic public markets, historical performance data demonstrates that the long-term returns will be greater, and overall risk reduced, as these private market categories become fully invested. It is PRIM's goal to achieve its long-term asset allocation target in the next three to five years.

Asset class strategies

The strategies and allocation adopted by the PRIM Board should create opportunities to achieve relatively strong performance in the future. And, during the past fiscal year, PRIM has dedicated substantial effort to restructuring its public markets portfolio in order to eliminate duplication of effort by managers, reduce management fees, and position the portfolio to anticipate changes in the marketplace.

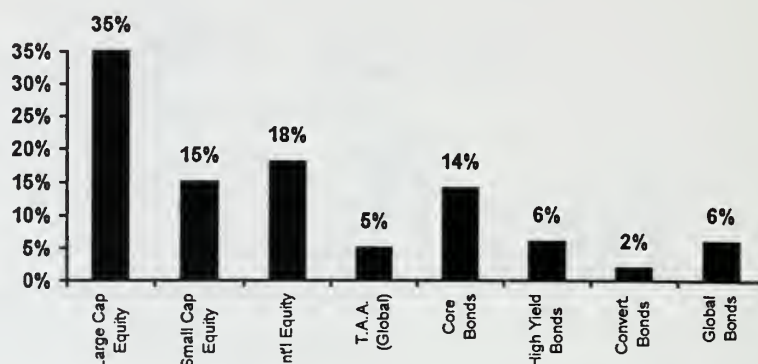
Public markets.

The PRIM Board has reduced the number of its public markets portfolios from 35 to 26, and structured asset classes to complement the risk and return characteristics of the overall Fund while maintaining prudent diversification. In the remaining portfolios, PRIM increased the average assets under management, re-negotiated management fees (instituting performance fees for several managers), and adjusted allocations to reflect the composition of the overall capital markets (so-called "market weighting").

The Board is also considering strategic opportunities. For large capitalization stocks, PRIM continues to consider more use of passive indexing over active management. Because the large cap market is more efficient than others, it is increasingly difficult for large cap managers to beat their benchmarks. Conversely, PRIM is taking a more active approach with respect to small capitalization stocks and the fixed income markets. As part of the recent restructuring, PRIM increased its small cap stock exposure to 30% of its domestic equity portfolio in order to achieve a weighting that is representative of the broad domestic equity market. The Board also increased to 20% its commitment to high yield bonds, again to reflect the market weighting.

In the international equity portfolio, PRIM increased its "emerging markets" exposure to a near market weighting of 20%. On the international fixed income side, PRIM now allows its managers to take a more tactical approach by adopting a full global strategy, thereby giving managers the option to include U.S. markets in their portfolios. The PRIT Fund is beginning to realize tremendous benefits from the currency overlay manager selected in 1993. This program was established to be a defensive approach to minimize losses that may occur from the dollar strengthening. PRIM is optimistic that this manager will protect the portfolio value should the dollar valuation increase.

**Current Asset Allocation as Percentage of
Public Securities Portfolio**



Alternative investments.

PRIM's goal is to maintain the above market performance that it has achieved in the alternative investment, or "private equity", markets over the past 10 years.

PRIM's long-term target will be to achieve 15% or more per year from its alternative investments, and to increase this share of the Fund assets to 12% from the current 7.8%. It will do this by selecting experienced managers who have above average performance track records over a number of economic cycles. This disciplined approach is important in light of the recent surge of funding and new entrants in this asset class. PRIM plans to commit approximately \$200 to \$300 million per year in new partnerships, but will not make investments that do not meet its standards.

Real estate.

The goal for meeting the real estate target allocation of 9% by 1997 is currently on track. Overall, the national real estate market is healthier than it was at the beginning of the decade. Real estate values have significantly improved and the supply/demand fundamentals are better. PRIM's core equity investments are providing strong current cash flows with minimal leasing risk.

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1995

During this fiscal year, PRIM committed \$400 million to new real estate equity investments. The Board selected four new managers: Equitable Real Estate, LaSalle (previously Alex Brown Kleinwort Benson), Invesco, and RREEF, and each received an allocation of \$100 million. PRIM also selected a new consultant, The Townsend Group, after its previous consultant resigned to pursue other money management business.

As of June 30, 1995, \$103 million of the \$400 million allocation was actually invested. PRIM will continue to focus on its "core" strategy of separate accounts (100% ownership) with geographical and property-type diversification. In addition, a \$65 million complementary strategy is under consideration.

The benefits of core separate account investing will become even more apparent in future years as the full \$400 million core commitment is fully invested and PRIM's commingled fund investments are sold by PRIM or liquidated by fund managers as markets continue to improve. The separate account structure will allow PRIM to invest in real estate in a deliberate manner, with low management fees and incentive fees that should motivate managers to sell investments at the optimal time. The portfolio assembled by the separate account managers should produce strong cash yields for PRIM with risk mitigated by regional and property type diversification.

Transfer of MASTERS Real Estate and Alternative Investments.

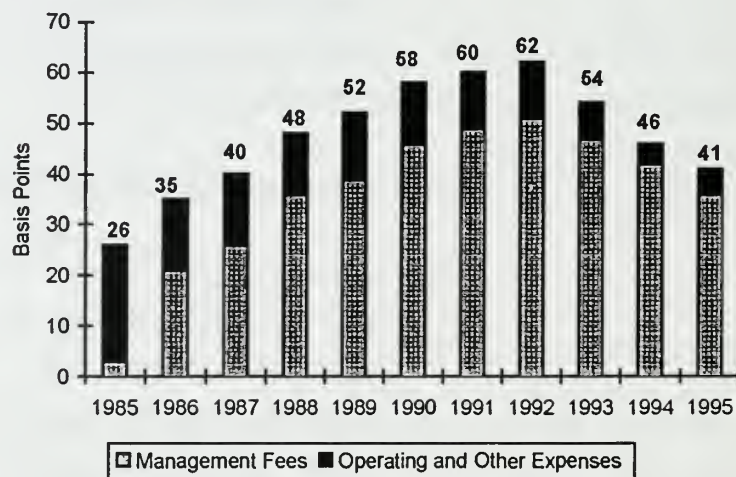
Pursuant to approvals by the boards of PRIM and PRIM's sister fund, the Massachusetts State Teachers' and Employees' Retirement Systems Trust ("MASTERS"), PRIM has taken ownership of the \$123 million real estate portfolio and the \$162 million alternative investment portfolio formerly owned by MASTERS. The transfer from MASTERS to PRIM was in partial satisfaction of the "excess earnings" payment required under state law. The ability to transfer those assets saved the retirement systems approximately \$2.9 million in commissions and market-related fees that would have been incurred had public market

securities been liquidated to raise cash in order to make the transfer payment. PRIM will manage the former MASTERS investments as part of a segregated account, the performance of which will be attributed to State Teachers and State Employees.

Controlling costs

PRIM continues to be vigilant in controlling the cost of operations. Several years ago, PRIM established a goal of 50 basis points, or 0.50% of the market value of the PRIT Fund, for total costs of operation (i.e., management, custody, consulting, overhead). In the last three fiscal years, the expenses associated with the full operation of the PRIT Fund and the PRIM Board decreased as a percentage of assets as the Fund grew. For fiscal 1995, the total cost of operation was 41 basis points. This cost containment is largely attributable to the advantageous performance-based fee program that PRIM instituted with its public market managers. In the coming years, PRIM will make every effort to maintain its low cost of operation, thereby providing higher returns to the participating and purchasing retirement systems in the PRIT Fund.

PRIM's Expenses as a Percentage of Fund



In 1995, PRIM again met its goal of reducing the PRIT Fund's total operating expenses and management fees to less than one-half of one percent (0.50%) of assets.

The proposed merger of the PRIT Fund with the MASTERS Trust would provide further savings. The consolidation of the two

pension funds would eliminate duplication of costs in the areas of investment management, custody, consulting, auditing, legal, and other administrative functions. It would no longer be necessary to incur the enormous transaction costs resulting from the liquidation of securities when the "excess earnings" are transferred to PRIT from MASTERS. It is estimated that the merger would result in savings of approximately \$100 million in the next five years. Over the course of the remainder of the pension funding schedule (33 years), these savings could yield at least an additional one billion dollars to meet the Commonwealth's pension obligations (assuming a conservative 4% annual rate of return on an annual savings of \$15 million per year).

Client Services

In the area of client services, PRIM hopes to expand its product offerings to purchasing systems. Last fiscal year, the PRIM Board amended the Operating Trust to establish separate asset classes so that retirement boards could select one or more of these asset classes as an alternative to investing in the total Fund. Legislation that would explicitly confirm a retirement board's authority to invest in separate asset classes of the PRIT Fund (H.428) is pending. Once approval is granted, we anticipate that a number of retirement systems will take advantage of this option, particularly to invest in asset classes that are too expensive for smaller systems to invest in efficiently on their own.

As we draw closer to the 21st century, PRIM is keeping up with new technology, particularly computer technology, to enhance communications. In the near future, PRIM plans to establish a computer network with its custodian and the retirement systems that invest in the PRIT Fund. This Bulletin Board System would allow retirement boards to upload or download information, such as monthly statements or performance data, to and from PRIM. PRIM could also correspond with its clients via electronic mail rather than by telecopier or first class mail, making for more efficient and immediate communications.

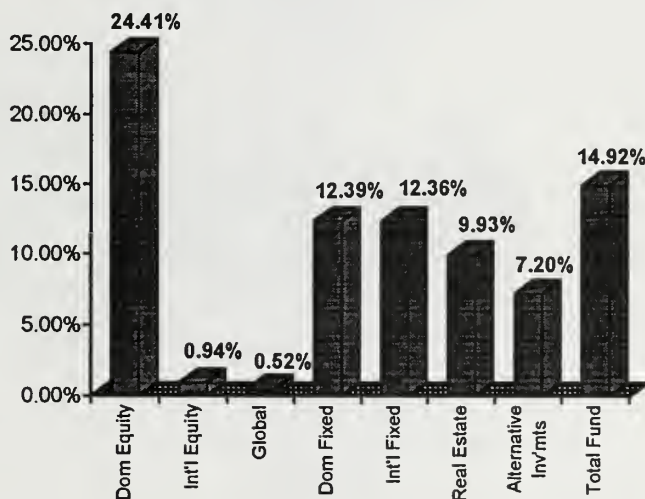
Conclusion

From an investment and client services standpoint, we believe that PRIM is well positioned as it begins its second decade. Notwithstanding current market activity, returns may not be as robust in the future as they were in the past ten years. PRIM will remain disciplined and follow its strategic asset allocation plan and the diversification within each asset class in order to prudently maximize returns while dampening portfolio volatility. To meet these objectives, PRIM will continue to maintain a long-term vision and keep short-term performance in perspective. We remain confident that PRIM is poised to meet successfully tomorrow's challenges.

FISCAL YEAR 1995 PERFORMANCE

Investment performance in the first and second half of fiscal 1995 presents a stark contrast. For the six months ending December 31, 1994, the total PRIT Fund returned a modest 2.54% versus the six months ending June 30, 1995, when the Fund experienced an impressive return of 12.07%. In stark contrast to the prior fiscal year, the surging domestic stock and bond markets of 1995 drove performance. Major domestic stock market indices set new record highs and the bond market rallied on the expectation that the economy was in a "soft landing" mode. International equity markets were not as robust, due primarily to returns falling off in the Japanese stock markets following a strong showing the prior fiscal year. For fiscal 1995, the PRIT Fund produced a gross return of 14.92%, bringing its annualized since inception return to 11.27%. The since inception figure is well above the 8.00% actuarial rate of return assumption and exceeds the PRIT Fund's asset allocation policy return, currently at 9.50%.

Returns for All Asset Classes, FY 1995



Domestic Equity

During the first half of fiscal 1995, in a period of rising interest rates, PRIM's domestic equity portfolio produced a 4.71% return. PRIM's active small capitalization equity portfolio, a component of the domestic equity portfolio, experienced a 10.45% return.

During the second half of fiscal 1995, interest rates fell significantly and corporate profits remained strong. PRIM achieved high returns, with domestic equity producing a 18.82% return and active small capitalization stocks earning 16.65%. The overall returns for domestic equity for the fiscal year was 24.41%, a sharp improvement over the 2.42% earned for the prior fiscal year.

Domestic Fixed Income

As a result of a significant rise in interest rates during the first half of fiscal 1995, PRIM's domestic fixed income returns were only 1.12%. However, during the second half of fiscal 1995, interest rates fell sharply. The yield on the 30 year treasury bond fell from 7.88% to 6.62%. Domestic fixed income produced a 11.14% return for the second half of the fiscal year and experienced a 12.39% return for the full twelve-month period. The prior fiscal year return was slightly positive at 0.34%.

International Equity

Unlike the prior fiscal year when PRIM's international equity returned 19.71%, fiscal 1995 returns were only 0.94%. The return for the first half of fiscal 1995 was 0.50% with Europe and the emerging markets turning in the best performances, 3.88% and 3.01%, respectively. During the second half of the fiscal year international equity experienced a 0.44% return, with Europe producing a 12.93% return and the "emerging markets" generating a return of -5.68%.

Global

PRIM's global portfolio, which permits "tactical" investment in domestic and foreign stocks and bonds, produced a return of negative 1.06% during the first half of the fiscal year, and a positive 1.06% during the second half of the fiscal year. For the full fiscal year, global earned a 0.52% return, considerably less than the 11.63% experienced in the prior fiscal year.

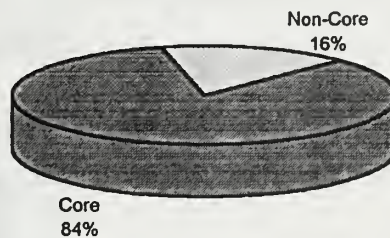
International Fixed Income

International fixed income returns were similar to domestic fixed income returns, experiencing 1.28% and 10.94% for the first and second half of the fiscal year respectively. For the full fiscal year international fixed income earned 12.36%, a substantial improvement over the 2.42% for the prior fiscal year.

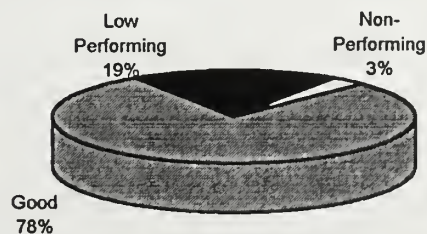
Real Estate

The fiscal year witnessed a dramatic turnaround for PRIM's real estate portfolio, which produced a total return of 9.93% compared to -2.87% for fiscal year 1994. Cash distributions to PRIM, a critical measure of real estate investment performance, were an impressive 7.8% during the year. The transformation also is demonstrated by the improvement in portfolio quality; as of fiscal year end, PRIM's real estate portfolio consisted mostly of core, performing investments:

**Real Estate
Portfolio Structure
6/30/95
\$252 Million**



**Real Estate
Investment Classification
6/30/95
\$252 million**

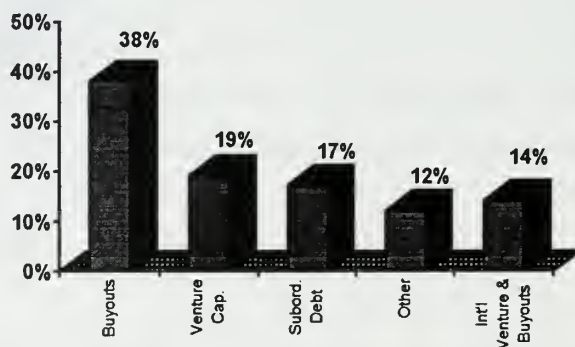


Alternative Investments

Alternative Investments comprised 7.8% of the PRIM portfolio and 2.2% of the MASTERS portfolio at fiscal year end. This asset class consists of investments in the private markets, including venture capital, buyouts, debt and restructuring funds, and energy related partnerships. Separate portfolios of \$460 million and \$164 million were held for PRIM and State Teachers and Employees, respectively, as of June 30, 1995.

PRIM's alternative investment portfolio has traditionally been a strong performer, earning 11.2% since inception. This includes a 7.0% return from its venture capital, and 13.5% from buyouts and special situation investments. In fiscal year 1995, PRIM's alternative investment portfolio returned 7.2%, including a 4.6% return on its buyouts and special situations portfolio, and a return of 17.2% for its venture capital partnerships. The MASTERS alternative investment portfolio is providing a strong return from inception of 13.2%. In part, this reflects the greater maturity of MASTERS' investments.

**PRIM Alternative Investment Allocation
(Commitments)**



OVERVIEW**The PRIT Fund**

The Pension Reserves Investment Trust ("PRIT") Fund is a pooled investment fund established to invest the pension reserve assets of the Massachusetts State Employees' and Teachers' Retirement Systems, and the assets of county, authority, district, and municipal retirement systems that choose to invest in the Fund. The PRIT Fund was created in December 1983 by the Legislature (chapter 661, acts 1983) with a mandate to accumulate assets through investment earnings and other revenue sources in order to reduce the Commonwealth's significant unfunded pension liability, and to assist local participating retirement systems in meeting their future pension obligations. As of June 30, 1995, the assets of the PRIT Fund exceeded \$6.1 billion. The Pension Reserves Investment Management ("PRIM") Board is charged with the general supervision of the PRIT Fund.

In making investments, the PRIM Board is guided by the prudent person rule. It is PRIM's mission to maximize the return on investment within acceptable levels of risk that are appropriate for a public pension fund. The PRIM Board executes its duties on behalf of state employees, teachers, and investing systems by:

- providing a broad diversification of its investment portfolio;
- capitalizing on economies of scale to achieve cost effective operations;
- providing access to high quality, innovative investment management firms; and
- extending access to an experienced professional staff, consultants, investment committee members, and Trustees.

As initially created, the PRIT Fund consisted of two investment funds: the Capital Fund and the Cash Fund. Cash, deposited and invested on a temporary basis, is transferred monthly from the Cash Fund to the Capital Fund. Once in the Capital Fund, funds are invested and reinvested across all asset classes under PRIM's long-term investment guidelines and asset allocation.

On June 28, 1994, the PRIM Board voted to amend its Operating Trust. As a result of this amendment, PRIM changed its accounting structure to a more conventional plan accounting structure. This new accounting structure will enable PRIM to:

- offer segments of the PRIT fund to eligible retirement systems (pending legislative approval);
- calculate performance net of fees on both the manager level (manager by manager) and on the asset class level (domestic equity etc.); and
- improve reporting to member systems.

The PRIT Fund still consists of two investment funds, the "Capital Fund" and the "Cash Fund". The Capital Fund serves as the long term asset portfolio and consists of the following nine accounts: General Allocation Account (which is comprised of the other accounts, except the State Employees' and Teachers' Separate Account), Domestic Equity, Domestic Fixed Income, International Equity, International Fixed Income, Real Estate, Alternative Investment, Tactical Asset Allocation and the State Employees' and Teachers' Separate Account (which holds the State Employees' and Teachers' Investment in the Massachusetts Technology Development Corporation as well as the Alternative Investment and Real Estate portfolios formerly held at MASTERS).

The PRIM Board

The nine-member PRIM Board acts as Trustee for each retirement system that invests in the PRIT Fund and is responsible for the control and management of the Fund. The Treasurer and Receiver-General of the Commonwealth is a member ex officio and serves as Chairman. The Governor or his designee and the Commissioner of the Division of Public Employee Retirement Administration are also ex officio members of the Board. The Governor and Treasurer each appoint two members of the Board, and the employees and retirees of the State Employees' and State Teachers' retirement systems each elect one Board member.

Joseph D. Malone, Chairman, Ex Officio Member
State Treasurer & Receiver-General

John J. McGlynn, Vice Chairman, Ex Officio Member
Commissioner, Division of Public Employee Retirement Administration

James B.G. Hearty, Designee of the Governor, Ex Officio Member
Managing Director, Lehman Brothers

Daniel J. O'Neil, Appointee of the Governor, Public Safety Organization Representative
President, Massachusetts Correction Officers Federated Union

Glenn M. Johnson, Appointee of the State Treasurer, Private Citizen, Investment/Business Field
President, G.M. Johnson Associates

Leticia Rivera-Torres, Appointee of the Governor, Non-State Employee or Official
Lecturer, Massachusetts Institute of Technology, Department of Urban Studies and Planning

Robert Brousseau, Elected Member, State Teachers Retirement System Representative
Retired Teacher, Wareham School System

Joseph DeLorey, Appointee of the State Treasurer, Union Member Representative
Treasurer, National Association of Government Employees

Ralph White, Elected Member, State Employees' Retirement System Representative
President, Retired State, County and Municipal Employees Association of Massachusetts

The PRIM Board Staff

The PRIM Board employs a professional staff to manage the day-to-day operations of the Fund and report to the Board. PRIM's staff is comprised of individuals with strong backgrounds in financial management and pension fund administration, as well as legal, accounting, and client servicing expertise.

Gregory A. White
Executive Director

R. Scott Henderson
General Counsel

W. Bruce Livingston
Chief Investment Officer

West Coghlan
Senior Investment Officer, Alternative Investments

Philip D. Kett
Senior Investment Officer, Public Markets

Jeffrey G. Maguire
Director of Real Estate Investments

Paul W. Todisco
Client Services Officer

Bradford B. Wakeman, CPA
Financial Officer

Maureen Duval
Investment Analyst

Douglas Moseley
Staff Accountant

Patricia Lewis
Administrative Assistant

Advisory Committees of the PRIM Board

Several years ago, the Chairman of the PRIM Board established advisory committees to provide a broader range of advice to the Board on an informal basis. These committees are generally comprised of two or three Board members, a representative from either a participating or purchasing retirement system, and a private citizen from the investment or business community. Currently, there are three working advisory committees: Administration and Audit, Investment, and Real Estate. The

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1995

committees have contributed important insights for PRIM's internal operations and external asset management.

Administration and Audit Committee

Robert Brousseau, Chairman
Board Member

John J. McGlynn
Board Member

Joseph DeLorey
Board Member

Irma Tyler-Wood
Principal, Conflict Management, Inc.

Richard P. Foley (Audit Committee only)
Town Accountant, Reading Retirement Board

Investment Committee

Ralph White, Chairman
Board Member

Daniel J. O'Neil
Board Member

Leticia Rivera-Torres
Board Member

Thomas H. Trimarco
First Deputy Treasurer

Thomas Craig
Director, Monitor Company

Robert D. Hall
County Treasurer, Norfolk County Retirement Board

Frank Lagrotteria
Weymouth Retirement Board

Real Estate Committee

James B. G. Hearty, Chairman
Board Member

Glenn M. Johnson
Board Member

Thomas H. Trimarco
First Deputy Treasurer

William F. McCall, Jr.
McCall & Almy, Inc.

Member State and Municipal Retirement Systems

A governmental retirement system within the Commonwealth may elect to participate in the PRIT Fund by vote of its board. The board may choose to participate as a *Participating System* or a

Purchasing System in the Fund. Participating systems qualify for funds appropriated by the Commonwealth to reduce the unfunded pension liability. By joining PRIT, retirement systems share in the benefits of PRIT's professional portfolio structure, including its variety of investment opportunities.

**Member State and Municipal Retirement Systems
as of June 30, 1995:**

Belmont Retirement Board*
Berkshire County Retirement Board*
Brookline Retirement Board*
Concord Retirement Board*
Dedham Retirement Board
Fairhaven Retirement Board
Framingham Retirement Board*
Gardner Retirement Board
Greenfield Retirement Board*
Hingham Retirement Board
Lowell Retirement Board*
Marblehead Retirement Board*
Massachusetts Water Resources Authority Retirement Board*
Milton Retirement Board
**Minuteman Regional Vocational Technical School
Retirement Board**
Montague Retirement Board
Needham Retirement Board
New Bedford Retirement Board*
Norfolk County Retirement Board*
Northbridge Retirement Board
Quincy Retirement Board*
Reading Retirement Board
Revere Retirement Board*
Saugus Retirement Board
Wakefield Retirement Board
Weymouth Retirement Board
State Employees Retirement Board
State Teachers Retirement Board

***Purchasing System**

INVESTMENT MANAGERS AND ADVISORS

Investment Managers

The PRIM Board retains outside managers to invest PRIT Fund assets according to the Fund's asset allocation and investment guidelines. Most of the Fund's equity managers are compensated under various "performance fee" agreements, which reduce base management fees while rewarding exceptional investment returns. The PRIM Board has achieved its goal of operating the Fund at a cost of one-half of one percent of total assets.

PRIT Fund Investment Managers as of June 30, 1995

Domestic and International Equity Managers

Alliance Capital Management L.P., New York
 Babson-Stewart-Ivory International, Edinburgh
 Bankers Trust Co., New York
 Batterymarch Financial Management, Boston
 Brown Capital Management, Inc., Baltimore
 Capital Guardian Trust Company, Los Angeles
 Cursltor Eaton Asset Management (TCW), London
 Emerging Markets Management, Washington, DC
 Fidelity Management Trust Company, Boston
 Kennedy Capital Management, Inc., St. Louis
 Lombard Odier International, London
 Massachusetts Financial Services Company, Boston
 Pareto Partners, London
 Putnam Advisory Co., Boston
 Rhumblin Advisers, Boston
 Scudder, Stevens & Clark, Inc., New York
 State Street Global Advisors, Boston
 ValueQuest, Ltd., Marblehead, MA

Domestic and International Fixed Income Managers

Bankers Trust Company, New York
 Baring International Investment, Ltd., London
 Fidelity Management Trust Company, Boston
 W. R. Huff Asset Management Company, Morristown, NJ
 Pacific Investment Management Co., Newport Beach, CA
 Putnam Advisory Co., Boston
 Rothschild International Asset Management, Ltd., London

Real Estate Managers

Aldrich, Eastman & Waltch, Inc., Boston
 Bear Stearns Realty Partners, New York
 Boston Financial Group, Inc., Boston
 Copley Real Estate Advisors, Inc., Boston
 Equitable Real Estate Investment Management, Atlanta
 Hancock Real Estate Investment Group, Boston
 Heitman/JMB Advisory Corp., Chicago
 Invesco Realty Advisors, Inc., Dallas

Real Estate Managers (continued)

LaSalle Advisors Limited, Chicago
RREEF America L.L.C., San Francisco
TA Associates Realty, Boston
TCW Realty Advisors, Los Angeles

**Domestic and International Venture Capital and
Special Equity Partnerships**

Advent International, Boston
Arral Pacific Management, Lt., Hong Kong
Alan Patricof Associates, Ltd., New York
Belmont Capital Partners II Fund, Boston
The Blackstone Group, New York
Wm. Blair Mezzanine Capital Management, Chicago
Boston Ventures Management, Inc., Boston
Capital Resource Lenders, Boston
Commonwealth Bioventures, Inc., Worcester, MA
Commonwealth Capital Partners, Wellesley, MA
Davis Venture Partners, Tulsa
Dominion Ventures, San Francisco
Donaldson, Lufkin & Jenrette Merchant Banking Partners, New York
1818 Fund, Brown Brothers Harriman & Co., New York
Equitable Capital Management Corp., New York
Forstmann Little & Co., New York
Freeman Spogli Equity Partners, Los Angeles
Golder, Thoma and Cressey, Chicago
Hancock Venture Capital Management, Inc., Boston
Hellman & Friedman Capital Partners, San Francisco
Invexco, Inc., Houston
Joseph Littlejohn & Levy Fund, New York
Kohlberg, Kravis & Roberts and Co., New York
Landmark Equity Partners, New York
Madison Group, L.P., Westport, CT
Massachusetts Technology Development Corp., Boston
Morgan Holland Partners, Boston
Nash, Sells & Partners, Ltd., London
Schroder Ventures, London
Smith Offshore Exploration Co., Houston
Southern California Ventures, Sherman Oaks, CA
TA Associates, Boston
Thomas H. Lee Equity Partners, L.P., Boston
Venture Capital Fund of New England, Boston
Vista Partners, New Canaan, CT

Outside Advisors

The PRIM Board retains outside advisors to assist in monitoring existing investments, evaluating new opportunities, and operating the Fund. Consultants use their particular expertise to assist the Board and its staff in the areas of General Portfolio Strategy and Investments, Real Estate, and Private Markets. The Board retains outside legal counsel for a broad variety of investment-related matters, and certified public accountants to complete the annual

PRIT FUND ANNUAL REPORT FOR FISCAL YEAR 1995

audit. The Fund's custodian is responsible for providing all record-keeping and analytic performance valuations for the Fund.

Principal Outside Advisors as of June 30, 1995

CUSTODIAN

State Street Bank & Trust Company, Boston

FUND ADVISORS

Private Markets:

Pathway Capital Management, Irvine, CA

Real Estate:

Morris and Morse Company, Inc., Boston

General Investments/Strategy:

Wilshire Associates, Inc., Santa Monica, CA

LEGAL COUNSEL

Goodwin, Procter & Hoar, Boston

INDEPENDENT ACCOUNTANTS

Coopers & Lybrand, L.L.P., Boston



CHAPTER 32, SECTION 22(8) OF THE MASSACHUSETTS GENERAL LAWS ESTABLISHES THE PRIT FUND. THE FUND IS ADMINISTERED BY THE PRIM BOARD WHICH IS ESTABLISHED UNDER CHAPTER 32, SECTION 23(2A) OF THE MASSACHUSETTS GENERAL LAWS. IN ADDITION, THE BOARD OVERSEES THE FUND UNDER THE TERMS OF ITS OPERATING TRUST DATED JUNE 28, 1994.

THE PRIM BOARD IS AN AUTHORITY OF THE COMMONWEALTH OF MASSACHUSETTS. ITS OFFICES ARE LOCATED IN BOSTON, MASSACHUSETTS.

ALL CORRESPONDENCE MAY BE DIRECTED TO;
PENSION RESERVES INVESTMENT MANAGEMENT BOARD
125 SUMMER STREET, 10TH FLOOR
BOSTON, MA 02110

TELEPHONE: (617) 946-8415
FACSIMILE: (617) 946-8475

PENSION RESERVES INVESTMENT TRUST FUND
AUDITED FINANCIAL STATEMENTS AND SCHEDULE OF INVESTMENTS
FOR THE YEARS ENDED JUNE 30, 1995 AND 1994

R

A

S

S

S

M

S

PENSION RESERVES INVESTMENT TRUST FUND
INDEX TO AUDITED FINANCIAL STATEMENTS AND
SCHEDULE OF INVESTMENTS

for the years ended June 30, 1995 and 1994

	<u>Page(s)</u>
Report of Independent Accountants	1
Audited Financial Statements	
Statements of Assets and Liabilities	2
Statements of Operations	3
Statements of Changes in Net Assets	4
Notes to Financial Statements	5-15
Schedule of Investments	16-25

V
T
c
r
s
f
i
a
V
r
s
s
a
o
o
L
f
o
a
A
a
e
l
o
u
d
d
v
i

B
A

REPORT OF INDEPENDENT ACCOUNTANTS

To the Pension Reserves Investment Management Board and
Participating and Purchasing Systems of the
Pension Reserves Investment Trust Fund:

We have audited the accompanying statement of assets and liabilities of the Pension Reserves Investment Trust Fund, including the schedule of investments, as of June 30, 1995, and the related statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Pension Reserves Investment Trust Fund for the year ended June 30, 1994 were audited by other auditors, whose report, dated August 26, 1994, included an explanatory paragraph that described the inherent uncertainty of the valuation of real estate and alternative investments that the Pension Reserves Investment Trust Fund owned at June 30, 1994.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pension Reserves Investment Trust Fund at June 30, 1995, and the results of its operations and the changes in its net assets for the year then ended in conformity with generally accepted accounting principles.

As explained in Note 2, the financial statements include real estate and alternative investments valued at approximately \$985,000,000 at June 30, 1995, representing approximately 16%, of net assets, whose estimated fair value has been determined under the general supervision of the Pension Reserves Investment Management Board, with input from real estate and alternative investment managers and other advisers, in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board in arriving at its estimate of value of such investments and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Boston, Massachusetts
August 30, 1995

Coopers & Lybrand L.L.P.

STATEMENTS OF ASSETS AND LIABILITIES

June 30, 1995 and 1994

		1995					
		CAPITAL FUND					
		State Employees' and Teachers' Separate Account	General Allocation Account	Total	Cash Fund	Total	1994 Total
ASSETS							
Investments at market value (Note 2):							
Equities			\$ 2,965,857,552	\$ 2,965,857,552		\$ 2,965,857,552	\$ 2,255,500,654
Fixed-income investments			374,943,291	374,943,291		374,943,291	457,447,727
U.S. government agency and treasury obligations			640,526,919	640,526,919		640,526,919	467,500,572
Money market investments			551,694,775	554,644,986	\$ 3,944,068	558,589,054	225,979,353
Real estate net of reserve (Note 2)	\$ 2,950,211		267,588,868	371,227,529		371,227,529	194,585,225
Alternative investments	103,638,661		450,539,559	614,254,913		614,254,913	440,841,544
International investments	163,715,354		650,780,332	650,780,332		650,780,332	756,209,702
Total investments	270,304,226		5,901,931,296	6,172,235,522	3,944,068	6,176,179,590	4,798,064,777
Cash			50,431,441	50,431,441		50,431,441	10,793,941
Dividends and interest receivable		204,883	26,183,859	26,388,742	22,335	26,411,077	22,480,278
Receivable for investments sold			28,314,395	28,314,395		28,314,395	44,892,514
Unrealized appreciation on foreign currency contracts			2,612,148	2,612,148		2,612,148	
Interfund receivable (payable)	(1,250,000)		1,250,000				
Margin variation receivable			476,375	476,375		476,375	
Other assets	481		81,590	82,071		82,071	84,035
Total assets	269,259,590		6,011,281,104	6,280,540,694	3,966,403	6,284,507,097	4,876,315,545
LIABILITIES							
Payable for investments purchased			62,156,859	62,156,859		62,156,859	101,601,143
Management fees payable to PRIM (Note 3)		748,376	6,607,001	7,355,377		7,355,377	4,652,671
Unrealized depreciation on foreign currency contracts			8,376,080	8,376,080		8,376,080	
Other liabilities					101,501	101,501	92,406
Notes payable (Note 4)			15,375,642	15,375,642		15,375,642	29,461,995
Total liabilities		748,376	92,515,582	93,263,958	101,501	93,365,459	135,808,215
Commitments and contingencies (Note 6)							
NET ASSETS							
Fund units							
Undistributed net investment income	267,906,369		5,327,279,321	5,595,185,690	3,726,382	5,598,912,072	4,764,081,586
Undistributed net realized capital gains (losses)	643,906		64,554,141	65,198,047	138,520	65,336,567	
Net unrealized appreciation (depreciation) on investments	(1,428)		107,615,750	107,614,322		107,614,322	(23,574,256)
	(37,633)		419,316,310	419,278,677		419,278,677	
Total net assets	268,511,214		5,918,765,522	6,187,276,736	3,864,902	6,191,141,638	4,740,507,330
Cost	270,341,859		5,476,574,120	5,746,915,979	3,944,068	5,750,860,047	4,821,639,033

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

STATEMENTS OF OPERATIONS

for the years ended June 30, 1995 and 1994

		1995						1994	
		CAPITAL FUND							
		State Employees' and Teachers' Separate Account	General Allocation Account	Total	Cash Fund	Total		Total	
Investment income:									
Interest	\$	704	\$ 105,521,751	\$ 105,522,455	\$ 268,879	\$ 105,791,334	\$	82,038,677	
Dividends		197,804	25,893,377	26,091,181		26,091,181		31,785,202	
Real estate income		33,372	15,785,850	15,819,222		15,819,222		16,627,033	
Alternative investment income		1,160,402	10,774,474	11,934,876		11,934,876		13,279,919	
Security lending income (Note 7)			1,663,359	1,663,359		1,663,359		1,002,561	
Total investment income		1,392,282	159,638,811	161,031,093	268,879	161,299,972		144,733,392	
Less:									
Management fees (Note 3)		748,376	21,535,997	22,284,373		22,284,373		19,879,020	
Interest expense			1,840,341	1,840,341		1,840,341		2,088,874	
Net investment income		643,906	136,262,473	136,906,379	268,879	137,175,258		122,765,498	
Realized gain (loss) on investments		(1,428)	128,248,576	128,247,148		128,247,148		440,690,814	
Unrealized appreciation (depreciation) on investments		346,630	442,506,573	442,853,203		442,853,203		(335,093,468)	
Net gain on investments		345,202	570,755,149	571,100,351		571,100,351		105,597,346	
Net increase in net assets resulting from operations		989,108	707,017,622	708,006,730	268,879	708,275,609	\$	228,362,844	

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

STATEMENTS OF CHANGES IN NET ASSETS

for the years ended June 30, 1995 and 1994

	1995				1994	
	CAPITAL FUND				Total	
	State Employees' and Teachers' Separate Account	General Allocation Account	Total	Cash Fund	Total	Total
Operating activities:						
Net investment income	\$ 643,906	\$ 136,262,473	\$ 136,906,379	\$ 268,879	\$ 137,175,258	\$ 122,765,498
Realized gain (loss) on investments	(1,428)	128,248,576	128,247,148		128,247,148	440,690,814
Unrealized appreciation (depreciation) on investments	346,630	442,506,573	442,853,203		442,853,203	(335,093,468)
Increase in net assets resulting from operations	989,108	707,017,622	708,006,730	268,879	708,275,609	228,362,844
Distribution to member systems:						
Net investment income	-	(71,708,332)	(71,708,332)	(130,359)	(71,838,691)	(122,765,498)
Realized gain on investments	-	(20,632,826)	(20,632,826)		(20,632,826)	(440,690,814)
Total distributions to member systems	-	(92,341,158)	(92,341,158)	(130,359)	(92,471,517)	(563,456,312)
Fund unit transactions:						
System contributions	266,660,031	528,708,519	795,368,550	31,519,010	826,887,560	775,005,546
Net asset value of units issued to member systems for reinvestment of net income, realized gain and state appropriations		92,341,158	92,341,158	130,359	92,471,517	563,456,312
Full system redemptions		(37,794,325)	(37,794,325)	(46,734,536)	(84,528,861)	(17,246,946)
Partial system redemptions	4,792	21,097,008	21,101,800	(21,101,800)		(122,979,327)
Interfund transfers						
Net assets provided by fund unit transactions	266,664,823	604,352,360	871,017,183	(36,186,967)	834,830,216	1,198,235,585
Increase (decrease) in net assets	267,653,931	1,219,028,824	1,486,682,755	(36,048,447)	1,450,634,308	863,142,117
Net assets at beginning of year	857,283	4,699,736,698	4,700,593,981	39,913,349	4,740,507,330	3,877,365,213
Net assets at end of year	\$ 268,511,214	\$ 5,918,765,522	\$ 6,187,276,736	\$ 3,864,902	\$ 6,191,141,638	\$ 4,740,507,330

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS

1. Description of the Pension Reserves Investment Trust Fund:

General

The Pension Reserves Investment Trust Fund (PRIT) was created in 1983 by The Commonwealth of Massachusetts through legislation (Chapter 661 of the Acts of 1983, as amended by the Acts of 1987) and is the investment portfolio for the assets of member state and local retirement systems. The Pension Reserves Investment Management Board (the Board) was created by the same legislation to manage PRIT. The Board, a component unit of The Commonwealth of Massachusetts, is governed by a nine-member board of trustees. The trustees include the governor, ex officio, or his designee; the state treasurer, ex officio, or his designee, who serves as chairman of the board; two appointees of the governor; two appointees of the state treasurer; a state teachers' retirement system representative, elected by the members of the system; a state employees' retirement system representative, elected by the members of the system; and the commissioner of Public Employee Retirement Administration (PERA). PRIT is also a component unit of The Commonwealth of Massachusetts.

Systems joining PRIT have the option of being Participating or Purchasing Systems. The Participating Systems include the State Employees' and the State Teachers' Retirement Systems. The remaining Participating and Purchasing Systems are Massachusetts authorities, counties, cities and towns. Participating Systems, other than the State Employees' and State Teachers' Retirement Systems, must transfer all of their retirement system assets to PRIT and commit to remain invested for five years. Purchasing Systems may allocate a certain amount of their assets to the Fund, thus retaining the control and ability to contribute and withdraw funds at their discretion. Purchasing Systems and Participating Systems share in the investment earnings of PRIT based on their proportionate share of net assets (see Note 2). As of June 30, 1995, there were 15 Participating Systems and 13 Purchasing Systems.

Operating Trust Amendments

On June 28, 1994, the PRIM Board voted to amend its operating trust. The amendments allow PRIM to offer segments of the PRIT Fund to eligible retirement systems (legislation to explicitly confirm the authority of local retirement systems to purchase such segments is pending before the legislature). The amendments change PRIT's accounting system to a "plan accounting" structure. This new structure was implemented by the Fund effective January 1, 1995. Prior to these changes, the operating trust required a monthly distribution of "dividends", pro rata, to the member systems (shareholders). These distributions represented the entire PRIT Fund's net income and net realized gains for the month. These distributions were reinvested in units of the PRIT Fund. Under the prior system, the unit price (share price) only fluctuated for the increase or decreases in net unrealized gains and losses.

Continued

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS

Under the new plan accounting structure, invested systems acquire additional units in the PRIT Fund when they make actual capital contributions to the Fund. The total Fund income and realized and unrealized gains and losses are added to, or subtracted from, the total value of the Fund. The new net asset value is then divided by the number of units outstanding to determine a per unit value. Generally, if a system makes no contributions to or redemptions from the Fund, the number of units the system owns will remain constant while the share price will fluctuate with the Fund's performance

Investment Funds

The PRIT Fund consists of two investment funds, the "Capital Fund" and the "Cash Fund". Each of these funds is separately held, managed and accounted for. The Capital Fund serves as the long term asset portfolio and consists of the following nine accounts: General Allocation Account (the investments in which may consist in whole or in part of units of the other accounts, except the State Employees' and Teachers' Separate Account), Domestic Equity Account, Domestic Fixed Income Account, International Equity Account, International Fixed Income Account, Real Estate Account, Alternative Investment Account, Tactical Asset Allocation Account and the State Employees' and Teachers' Separate Account. At June 30, 1995, all participating and purchasing systems were invested in the General Allocation Account. Seven of the Accounts have not been opened for investment as of June 30, 1995.

The Cash Fund consists of short term investments which are used to meet the liquidity requirements of Participating Systems.

For presentation purposes, the State Employees' and Teachers' Separate Account has been reported separately. The assets held in this account consist principally of real estate and alternative investment assets transferred by the Massachusetts State Teachers' and Employees' Retirement Systems Trust (MASTERS) in fiscal 1995 in partial satisfaction of the obligation under the "excess earnings" pursuant to M.G.L. c-32 Sec. 22 (6).

Excess Earnings

Any balance remaining in the investment income accounts of the State Employees' and State Teachers' Retirement Systems shall be transferred to PRIT. Each system, once it has completed its annual report, is required to transfer these funds, known as "excess earnings," to PRIT on an annual basis. The State Employees' Retirement System has made its excess earning payments to PRIT through its fiscal year ended December 31, 1994. As of June 30, 1995, the State Teachers' Retirement System has transferred its excess earnings through December 31, 1993 and has transferred estimated payments for its fiscal year ended December 31, 1994. Payments for the remaining portion of excess earnings are anticipated within fiscal 1996.

Continued

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

In fiscal 1995, the State Employees' and the State Teachers' Retirement Systems transferred \$671,254,000 of assets to PRIT in connection with the "excess earnings" payment. The asset transfer consisted of the following:

<u>Description of Assets</u>	<u>Estimate of Fair Value</u>
Cash	\$259,713,000
Indexed Securities	144,883,000
Real Estate	104,339,000*
Alternative Investments	<u>162,319,000*</u>
	<u>\$671,254,000</u>

*Transferred to the State Employees' and Teachers' Separate Account. MASTERS will transfer additional real estate assets with an estimated value of approximately \$19,200,000 in fiscal 1996.

2. Summary of Significant Accounting Policies:

Valuation of Investments

Security transactions are recorded on the trade date of the securities purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a member system, the market value of the securities on the transfer date.

Investments in bonds and U.S. government agency and treasury obligations are valued by an independent pricing service. In determining the price, the service reflects such factors as security prices, yields, maturities and ratings, supplemented by dealer quotations. Money market and other short-term investments, both domestic and international, are recorded using the amortized cost method, which approximates market value. Domestic and international investments in equity securities traded on national securities exchanges are valued at the last sale price or, if no sale price is available, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter bid prices.

Investments in real estate are valued as determined in good faith under consistently applied procedures under the general supervision of the Board, with input from the real estate managers and other advisers. The investments in real estate at value amounted to \$371,227,529 and \$194,585,225 at June 30, 1995 and 1994, respectively. Investments in real estate at value in the General Allocation Account are net of a reserve for future write-downs amounting to approximately \$7,000,000 at June 30, 1995 and 1994.

Alternative investments are typically made through limited partnerships that in turn invest in venture capital, leveraged buyouts, private placements and other investments where the structure, risk profile and return potential differ from traditional equity and fixed income investments. These investments are also included in the balance sheets at estimated fair values as determined in good faith under consistently applied procedures under the general supervision of the Board with input

Continued

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

from the alternative investment managers and other advisors. The investments in alternative investments at value amounted to \$614,254,913 and \$440,841,544 at June 30, 1995 and 1994, respectively.

Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. For the year ended June 30, 1995, foreign taxes withheld of \$1,248,000 and \$210,000 have been netted against dividend income and interest income, respectively, in the General Allocation Account in the Statement of Operations.

Concentrations of credit risk exist if a number of companies in which the Fund has invested, are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate its exposure to concentrations of credit risk, PRIT invests in a variety of industries located in diverse geographic areas.

Gains and losses from sales of investments are calculated on the average cost method.

Foreign Currency Translation

The accounting records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing rates of exchange at period end. Purchases and sales of securities, income receipts, and expense payments are translated into U.S. dollars at the prevailing exchange rate on the respective dates of the transactions.

Net realized gains and losses on foreign currency transactions represent principally, net gains and losses from sales and maturities of forward currency contracts, disposition of foreign currencies, currency gains and losses realized between the trade and settlement dates on securities transactions.

Unrealized net currency gains and losses from valuing foreign currency-denominated assets and liabilities and foreign equity securities at period-end exchange rates are reflected as a component of net unrealized appreciation (depreciation) on investments. For financial reporting purposes, it is not practicable to isolate that portion of the results of operations arising as a result of changes in foreign exchange rates from the fluctuations arising from changes in the market price of securities during the period.

Continued

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Fund Units

In connection with the change to the "plan accounting" structure (Segmented Accounts) effective January 1, 1995, the Board approved a reverse share conversion in which the unit values increased and the number of participants' units decreased without changing the aggregate value of each participant's account. The unit values before and after the change were as follows:

	<u>General Allocation Account</u>	<u>State Employees' and Teachers' Separate Account</u>	<u>Cash Fund</u>
Unit value before change	\$ 1.1663	-	\$ 1.00
Unit value after change	1,000.00	1,000.00	1,000.00

The activity in units for the year ended June 30, 1995 was as follows:

	<u>General Allocation Account</u>	<u>State Employees' and Teachers' Separate Account</u>	<u>Cash Fund</u>
Units at June 30, 1994	4,051,220,929		39,913,349
Purchases (6/30/94 to 12/31/94)	104,844,917		39,320,796
Redemptions (6/30/94 to 12/31/94)	(18,909,182)		(35,022,009)
Reinvestment (6/60/94 to 12/31/94)	79,380,583		138,250
Units at December 31, 1994	4,216,537,247		44,350,386
Conversion Adjustment January 1, 1995	(4,211,619,703)		(44,306,036)
Shares after conversion	4,917,545	1,045	44,350
Purchases (1/1/95 to 6/30/95)	835,058	269,589	28,238
Redemptions (1/1/95 to 6/30/95)	(436,597)		(68,878)
Units at June 30, 1995	<u>5,316,006</u>	<u>270,634</u>	<u>3,710</u>

Continued

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Capital Fund

Capital Fund - General Allocation Account

On payment by a Participating or Purchasing System in cash or in kind into the PRIT Fund of an amount equal to the total value of units to be issued, the Trustees issue such system units of participation. The value of the Account units is determined by dividing the value of the net assets of the Capital Fund - General Allocation Account by the number of units outstanding for the Account at the month end valuation date.

Capital Fund - State Employees' and Teachers' Separate Account

On payments of an amount equal to the total value of units to be issued, the Trustees issue such system units of participation in that account. The value of the Account units is determined by dividing the value of the net assets of the Account by the number of units outstanding for that particular Account at the month end valuation date.

Effective January 1, 1995, net investment income, realized and unrealized gains (losses) are added to, or subtracted from, the value of the Capital Fund or the individual accounts and are not reinvested in the Capital Fund or the individual accounts. Thus, the unit price fluctuates with performance of the Fund or Account while the number of units change generally only when a system makes a purchase or a redemption.

Cash Fund

The Cash Fund units are priced in a manner identical to the Capital Fund. The price of the Cash Fund units is determined by dividing the value of the net assets of the Cash Fund by the number of units outstanding. Cash Fund earnings are not reinvested in the Cash Fund but rather are added to the value of the Cash Fund. As a result, the Cash Fund unit price will fluctuate with the performance of the Cash Fund.

3. Management Fees:

In accordance with the Board's operating trust, all expenses incurred by the Board in managing PRIT are charged to PRIT in the form of management fees. These expenses consist of investment manager, advisory, custodian and other professional fees, salaries and other operating expenses of the Board.

Investment Managers

Investment management fees are paid to all of the Board's discretionary external managers pursuant to written contracts. The fees for equity and fixed-income managers are calculated and paid on a quarterly basis. In most cases, equity managers are paid on a "performance fee" basis. A performance fee is characterized by a low base fee, with an incremental fee paid on a quarterly basis over two years in the event a manager outperforms the contractual annual benchmark. Also,

Continued

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

performance fees may be adjusted downward if future performance does not meet contractual benchmarks. Commencing in fiscal 1995, the total performance fees are measured and accrued on the anniversary date of the contract and in most cases are payable over the subsequent eight quarters. Performance fees, amounting to \$1,100,279 are included in investment management and advisory fee expense in the statements of revenues, expenses and changes in fund balance for the year ended June 30, 1995. Fixed-income managers are generally paid on an asset-based fee basis with no performance component.

Real estate management fees are structured differently. The commingled funds generally charge fees that are based on net asset value. The separate account relationships which PRIT has negotiated are typified by a base fee during the holding period of the investment, with a performance fee component that may be payable when the original investment is sold or the relationship is terminated.

Most investment management fees for alternative investments and real estate are charged by the general partners to the investment partnerships and not to the limited partner investors directly. Therefore, these partnerships incur the expense, pay the fee and report income to the limited partners net of those investment management fees. A small number of the alternative investment partnerships charge the fees directly to the limited partner investors.

Since the inception of the Real Estate and Alternative Investment program, the PRIM board has elected to report, as part of its operating expenses, all of the investment management fees charged. Thus, management fees reported in the income statement of both PRIM and PRIT include all of those fees charged at the partnership level to the partnership. These fees amounted to \$8,218,917 and \$7,826,520 for the years ended 1995 and 1994, respectively. Total operating expenses without recognition of these fees would have been \$14,065,456 and \$12,052,500 for the years ended June 30, 1995 and 1994, respectively. As a result of this practice, PRIM is able to report investment performance, both gross and net of management fees.

Investment Advisors

Wilshire Associates, Inc., Morris & Morse Company, Inc., and Pathway Associates serve as the Board's pension investment advisors. These consultants provide the Board with comprehensive pension investment advisory services, including recommendations on asset allocations, selection of investment managers, and the measurement of external and internal performance of PRIT and the individual investment managers.

As compensation for their services, consultants received fees aggregating approximately \$611,000 and \$360,000 for the years ended June 30, 1995 and 1994, respectively.

Custodian

State Street Bank and Trust Company (State Street) is the PRIT investment custodian and recordkeeper. State Street records all daily transactions for PRIT, including investment sales and purchases, investment income, expenses incurred by PRIT and all fund unit activity for the PRIT

Continued

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

member systems. State Street also provides portfolio performance analysis. PRIT entered into a three-year contract with State Street for these services, effective April 1, 1993. State Street's compensation, based on a flat fee, amounted to \$575,000 and \$586,000 for the years ended June 30, 1995 and 1994, respectively.

Other Fees

The remaining management fees, amounted to \$1,273,000 and \$1,243,000 for the years ended June 30, 1995 and 1994, respectively, were reimbursements of the Board's operating expenses, including employee compensation, professional fees and occupancy costs.

4. Notes Payable:

Notes payable, consisting of variable and fixed rate notes, are summarized as follows:

	<u>1995</u>	<u>1994</u>
10% mortgage secured by interest in certain property owned by the Fund, payable in monthly installments of \$144,000 through August 1, 2006*	\$ 15,375,642	\$ 14,461,995
Note secured by interest in a certain partnership owned by the Fund which matured November 30, 1994 which bear interest at LIBOR plus .65%. The LIBOR rate in effect at June 30, 1994 was 3.9%	-	15,000,000
Total notes payable	<u>\$ 15,375,642</u>	<u>\$ 29,461,995</u>

*On August 1, 1995 the property was sold and the note was paid off.

The fair values of these notes have not been separately determined, but rather the notes have been considered in determining the values of the underlying real estate investments to which they relate.

5. Purchases and Sales of Investments:

During the year ended June 30, 1995, the approximate cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were \$4,593,000,000 and \$4,022,000,000, respectively. During the year ended June 30, 1994, the cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were approximately \$9,005,000,000 and \$8,199,000,000, respectively.

Continued

PENSION RESERVES INVESTMENT TRUST FUND
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. Commitments and Contingencies:

As of June 30, 1995, PRIT had outstanding commitments to invest \$292,000,000 million in real estate, \$40,162,000 million in venture capital and \$170,953,000 million in special equity investments. The fair value of the commitments approximate their stated value.

7. Securities Lending Program:

PRIT participates in State Street's securities lending program. Under this program, PRIT receives a fee for allowing brokerage firms to borrow from PRIT certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% of the market value of the security borrowed on domestic securities and 105% on international securities. All collateral is held by State Street. At June 30, 1995 and 1994, the market value of the securities on loan was approximately \$510 million and \$456 million, respectively. The value of the collateral amounted to \$524 million at June 30, 1995. The securities on loan are included in investments at market value as of June 30, 1995 and 1994 in the accompanying balance sheet.

8. Book-to-Market Appropriations:

Pursuant to M.G.L. c-32 Sec. 22(3)(c), the Commonwealth of Massachusetts reimburses the eligible retirement systems for the unrealized losses in their respective investment portfolios at the date they transferred their assets to PRIT. In both fiscal years 1995 and 1994, the Commonwealth contributed \$272,304, representing the book-to-market appropriation for the previous fiscal year, which was distributed to the six eligible retirement systems that joined PRIT on or before July 1, 1986.

9. Forward Contracts and Other Financial Investments with Off-Balance Sheet Risk:

Forward Currency Contracts. A forward currency contract is an agreement between two parties to buy or sell a currency at a set price on a future date. PRIT enters into forward currency contracts to hedge its exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates. The contract is marked-to-market daily and the change in market value is recorded by the fund as an unrealized gain or loss. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The maximum potential loss from such contracts is the aggregate face value in U.S. dollars at the time the contract was opened (see Schedule of Investments).

Futures. PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase.

Continued

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

A futures contract is an agreement between two parties to buy or sell units of a particular index or a certain amount of a U.S. Government security at a set price on a future date.

Upon entering into such a contract, PRIT is required to pledge to the broker an amount of cash or securities equal to the minimum "initial margin" requirements of the futures. Pursuant to the contract, PRIT agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin" and are recorded by PRIT as unrealized gains or losses. When the contract is closed, the PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The potential risk to PRIT is that the change in value of futures contracts primarily corresponds with the value of underlying instruments which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its futures positions due to an illiquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar (see Schedule of Investments).

Options. PRIT is also engaged in selling or "writing" options. As a writer of options, PRIT receives a premium when it writes a call or put option which is included in PRIT's "Statement of Assets and Liabilities" as an asset and an equivalent liability. The amount of the liability is subsequently "marked-to-market" to reflect the current market value of the option written. PRIT bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At period end, there were no options written outstanding.

10. Fund Units:

Units outstanding and unit values at June 30, 1995 were as follows:

	<u>Units</u>	<u>Unit Value</u>
General Allocation Account	5,316,006	\$ 1,113.39
State Employees' and Teachers' Separate Account	270,634	992.16
Cash Fund	3,710	1,041.65

The State Teachers' Retirement System and the State Employees' Retirement System account for the ownership of 92% of the General Allocation Accounts' total units outstanding at June 30, 1995.

Capital Fund units outstanding at June 30, 1994 were 4,051,220,927. Cash Fund units outstanding at June 30, 1994 were 39,913,349. Total net assets as of June 30, 1994 are equivalent to \$1.16 per Capital Fund unit and \$1.00 per Cash Fund unit.

Continued

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS, CONTINUED

The Board approved a reverse share conversion effective January 1, 1995 (see Note 2). If the share conversion had been effective July 1, 1994, the per share activity for the General Allocation Account including distributions for the period July 1, 1994 to December 31, 1994, would have been:

Net unit value, beginning of year	<u>\$ 994.89</u>
Net investment income	27.14
Net realized and unrealized gain	<u>109.75</u>
Total from investment operations	136.89
Less distributions:	
Net investment income	(14.28)
Realized gains	<u>(4.11)</u>
Total distributions	<u>18.39</u>
Net unit value, end of year	<u><u>\$ 1113.39</u></u>
Ratio of management fees to average net assets	.42%
Ratio of interest expense to average net assets	.04%
Ratio of net investment income to average net assets	2.67%

11. Cash Balances:

Cash represents amounts in bank depository accounts. Of the total cash balance, \$100,000 is insured; the remaining balance is uninsured and not collateralized.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULE OF INVESTMENTS

June 30, 1995

Domestic Investments

<u>Shares/ Par Value</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
Equities			
2,873,501	Basic industries	\$ 75,186,043	\$ 84,584,448
3,326,399	Capital goods	67,831,946	78,769,536
10,268,332	Consumer basics	174,043,146	201,806,666
2,195,993	Consumer durable goods	46,592,498	49,780,347
3,910,688	Consumer nondurables	72,026,866	77,117,926
2,432,431	Consumer services	40,584,339	55,178,631
1,551,421	Energy	49,723,215	52,361,251
20,107,694	Finance	343,587,901	425,552,334
3,910,553	General business	78,868,146	93,935,024
407,180	Shelter	8,494,516	8,744,667
7,481,269	Technology	172,981,872	236,603,315
554,658	Transportation	12,073,287	13,174,304
2,018,455	Utilities	56,708,976	59,072,477
42,209,524	Miscellaneous	<u>1,333,612,090</u>	<u>1,529,176,626</u>
	Total Equities	\$ <u>2,532,314,841</u>	\$ <u>2,965,857,552</u>
Fixed-Income Investments			
\$49,665,759	Corporate Bonds:		
	Financing and Banking with rates ranging from .0% to 17.37% and maturities ranging from 1995 to 2024	\$ 48,556,124	\$ 49,184,286
95,649,241	Industrials with variable and fixed rates ranging from .0% to 13.5% and maturities ranging from 1995 to 2001	88,280,633	89,954,666
30,783,000	Utilities with fixed and variable rates ranging from .0% to 12.25% and maturities ranging from 1993 to 2026	23,697,339	25,074,067
10,476,769	Transportation with rates ranging from 6.5% to 10.23% and maturities ranging from 1996 and 2014	10,374,569	10,598,611

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULE OF INVESTMENTS, CONTINUED

June 30, 1995

<u>Shares/Par Value</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
\$ 88,717,337	Miscellaneous/other with rates ranging from .0% to 26.75% and maturities ranging from 1995 to 2023	\$ 83,032,186	\$ 83,288,607
	TOTAL CORPORATE BOND	<u>\$253,940,851</u>	<u>\$258,100,237</u>
	Other Fixed Income Investments		
\$ 2,642,857	Asset-backed securities with rates ranging from 6% to 8.5% and maturities ranging from 1995 to 2000	\$ 2,663,558	\$ 2,683,571
94,319,000	Convertible Bonds with rates ranging from .0% to 13.5% and maturities ranging from 1996 to 2024	69,956,502	76,006,964
39,439,302	Collateralized Mortgage Obligations with rates ranging from .0% to 25% and maturities ranging from 2005 to 2032	33,067,211	33,530,621
19,220,684	Other Marketable Mortgage obligations with rates ranging from 1% to 8.8% and maturities ranging from 2003 to 2029	<u>5,047,765</u>	<u>4,621,898</u>
	TOTAL OTHER FIXED-INCOME INVESTMENTS	<u>\$110,735,036</u>	<u>\$116,843,054</u>
	TOTAL FIXED-INCOME INVESTMENTS	<u>\$364,675,887</u>	<u>\$374,943,291</u>
	U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS		
\$155,810,471	U.S. Government sponsored and guaranteed with rates ranging from .0% to 39.5% and maturities ranging from 1995 to 2025	\$153,848,105	\$155,639,377

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULE OF INVESTMENTS, CONTINUED

June 30, 1995

<u>Shares/Par Value</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
\$ 19,573,186	Federal Agency securities with rates ranging from 6% to 15.5% and maturities ranging from 1996 to 2025	\$ 19,715,151	\$ 19,710,084
649,667,190	United States Treasury Bonds/Notes with rates ranging from .0% to 19.625% and maturities ranging from 1996 to 2024	437,195,024	451,993,756
12,436,000	Yankee Bonds with rates ranging from 7.5% to 17% and maturities from 1997 to 2024	<u>\$ 12,695,408</u>	<u>\$ 13,183,702</u>
	TOTAL U.S. GOVERNMENT AGENCY AND TREASURY	<u>\$623,453,688</u>	<u>\$640,526,919</u>
	MONEY MARKET INVESTMENTS		
	Various Money Market Investments	<u>558,300,897</u>	<u>558,589,054</u>
	TOTAL MONEY MARKET INVESTMENTS	<u>\$558,300,897</u>	<u>\$558,589,054</u>
	REAL ESTATE		
	Commingled funds	\$161,326,332	\$104,382,350
	Separate accounts	254,150,810	163,206,518
	State Employees' and Teachers' Separate Account	<u>103,732,516</u>	<u>103,638,661</u>
	TOTAL REAL ESTATE	<u>\$519,209,658</u>	<u>\$371,227,529</u>
	ALTERNATIVE INVESTMENTS		
	Venture Capital	\$ 82,409,135	\$ 97,497,464
	Special Equity	282,727,637	353,042,095
	State Employees' and Teachers' Separate Account	<u>163,658,862</u>	<u>163,715,354</u>
	TOTAL ALTERNATIVE INVESTMENTS	<u>\$528,795,634</u>	<u>\$614,254,913</u>

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULE OF INVESTMENTS, CONTINUED

June 30, 1995

<u>Shares/Par Value</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
INTERNATIONAL INVESTMENTS			
EQUITIES			
10,844,739	Basic industries	\$ 50,748,019	\$ 48,242,539
12,722,598	Capital goods	60,081,116	60,471,706
7,891,341	Consumer basics	35,360,070	41,650,296
3,458,941	Consumer durable goods	17,846,296	16,977,376
16,345,314	Consumer nondurables	29,660,338	31,859,870
2,740,929	Consumer services	7,409,954	9,371,248
2,450,074	Energy	17,894,519	16,856,122
74,977,677	Finance	53,677,928	56,718,816
20,199,344	General business	23,356,625	25,112,256
2,468,641	Shelter	19,769,379	21,728,423
8,415,608	Technology	24,900,925	27,689,202
1,955,772	Transportation	7,845,721	6,665,530
4,820,469	Utilities	25,161,818	28,916,411
109,310,563	Miscellaneous	50,568,508	52,814,432
TOTAL INTERNATIONAL EQUITIES		<u>424,281,216</u>	<u>445,074,227</u>
FOREIGN GOVERNMENT TREASURY OBLIGATIONS			
	Government and Supranational with rates ranging from .0% to 14.25% and maturities ranging from 1996 to 2023	\$157,949,713	\$161,000,931
INTERNATIONAL FIXED INCOME			
	Foreign Corporate Bonds with rates ranging from .0% to 13.25% and maturities from 1997 to 2012	41,846,613	44,637,383
	Foreign Convertible Bond with a rate of 6% and maturity of 2003	<u>31,900</u>	<u>31,792</u>
TOTAL INTERNATIONAL FIXED INCOME		<u>199,828,226</u>	<u>205,706,105</u>
TOTAL INTERNATIONAL INVESTMENTS		<u>624,109,442</u>	<u>650,780,332</u>
TOTAL INVESTMENTS		<u>\$5,750,860,047</u>	<u>\$6,176,179,590</u>

A detailed portfolio listing is available for review at the offices of the Pension Reserves Investment Management Board.

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULE OF INVESTMENTS, CONTINUED

June 30, 1995

FORWARD CURRENCY CONTRACTS OUTSTANDING

	<u>Market Value</u>	<u>Aggregate Face Value</u>	<u>Delivery Date</u>	<u>Unrealized Appreciation/ Depreciation</u>
(B) Australian \$	\$ 22,316,234	\$ 23,041,995	11/2/95	\$ (725,761)
(S) Australian \$	27,888,608	27,324,179	11/2/95	564,429
(B) Belgian Franc	2,660,532	2,666,062	7/28/95	(5,530)
(S) Belgian Franc	1,342,756	1,335,538	7/28/95	7,218
(B) Canadian \$	13,946,852	13,902,495	8/1 - 10/13/95	44,357
(S) Canadian \$	5,775,990	5,799,719	8/1 - 10/13/95	(23,729)
(B) Swiss Franc	15,391,613	15,330,558	7/5 - 9/8/95	61,055
(S) Swiss Franc	19,967,811	20,467,151	7/5 - 9/8/95	(499,340)
(B) Deutschemarks	80,656,300	79,933,239	7/3 - 11/2/95	723,061
(S) Deutschemarks	91,323,598	93,113,091	7/3 - 11/2/95	(1,789,493)
(S) Danish Krona	7,940,587	8,095,069	9/22/95	(154,482)
(B) Spanish Peseta	5,559,517	5,302,188	7/5 - 9/6/95	257,329
(S) Spanish Peseta	16,235,761	16,790,591	7/5 - 9/6/95	(554,830)
(S) Finnish Markar	124,231	123,431	7/5/95	800
(B) French Francs	30,250,974	29,611,974	7/7 - 11/2/95	639,000
(S) French Francs	47,743,792	49,382,610	7/7 - 11/2/95	(1,638,818)
(B) Great Britain Pound	67,172,240	67,186,041	7/3 - 11/2/95	(13,801)
(S) Great Britain Pound	80,789,356	81,153,073	7/3 - 11/2/95	(363,717)
(S) Hong Kong \$	209,047	209,076	7/28/95	(29)
(B) India Rupee	23,124	23,125	7/5 - 7/11/95	(1)
(S) India Rupee	14,642	14,675	7/5 - 7/11/95	(33)
(B) Italian Lira	28,631,735	28,400,555	7/12 - 9/6/95	231,180
(S) Italian Lira	24,104,378	24,457,151	7/12 - 9/6/95	(352,773)
(B) Japanese Yen	101,174,361	102,380,683	7/3 - 11/2/95	(1,206,322)
(S) Japanese Yen	122,135,136	122,990,012	7/3 - 11/2/95	(854,876)
(B) Netherlands Guilders	1,662,754	1,622,965	7/3 - 9/1/95	39,789
(S) Netherlands Guilders	2,094,452	2,211,635	7/3 - 9/1/95	(117,183)
(B) Norwegian Krona	79,771	79,728	7/3 - 7/5/95	43
(S) Norwegian Krona	168,249	167,993	7/3 - 7/5/95	256
(B) New Zealand \$	2,680,850	2,637,219	7/6 - 7/24/95	43,631
(S) New Zealand \$	2,538,665	2,540,561	7/6 - 7/24/95	(1,896)
(B) Portuguese Escudo	39,944	40,216	7/3/95	(272)
(B) Swedish Krona	8,388,337	8,431,133	7/13 - 7/20/95	(42,796)
(S) Swedish Krona	9,729,245	9,758,486	7/13 - 7/20/95	(29,241)
(B) Singapore \$	60,441	60,517	7/5/96	(76)
(B) Thai Baht	90,997	91,082	7/3 - 7/5/95	(85)
(S) Thai Baht	411	411	7/3 - 7/5/95	-
(B) Turkish Lira	364	368	7/24/95	(4)
(B) South African Rand	477,537	478,529	7/3/95	(992)
				<u>\$ (5,763,932)</u>

(B) = Buy

(S) = Sell

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND
SCHEDULE OF INVESTMENTS, CONTINUED

June 30, 1995

FUTURES CONTRACTS

	<u>Expiration Date</u>	<u>Notional Value</u>	<u>Unrealized Gain/(Loss)</u>
Purchased			
81 5 yr. Treasury Note	Sept. 1995	\$ 8,694,844	\$ (17,719)
40 2 yr. Treasury Note	Sept. 1995	8,295,625	5,828
555 Treasury Bond	Sept. 1995	63,009,844	(485,937)
402 Treasury Note	Sept. 1995	44,257,687	<u>183,125</u>
			<u>\$(314,703)</u>

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULE OF INVESTMENTS

June 30, 1994

<u>Shares/Par Value</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
DOMESTIC INVESTMENTS			
\$ 1,594,753	Basic industries	\$ 37,913,900	\$ 40,660,601
2,381,347	Capital goods	49,023,671	50,796,677
4,981,359	Consumer basics	109,130,735	118,328,011
1,643,667	Consumer durable goods	46,739,634	46,613,017
3,062,324	Consumer nondurable goods	69,452,949	70,991,096
2,097,217	Consumer services	39,693,867	40,573,912
1,746,614	Energy	52,042,427	53,894,128
16,907,477	Finance	300,933,027	344,138,757
2,661,591	General business	51,407,508	54,198,315
308,155	Shelter	9,365,095	7,811,372
5,237,290	Technology	125,893,871	133,391,688
718,103	Transportation	21,128,886	20,405,411
2,862,145	Utilities	84,064,269	82,076,572
938,438,227	Miscellaneous	<u>1,236,875,456</u>	<u>1,191,621,097</u>
	TOTAL EQUITIES	<u>\$2,233,665,295</u>	<u>\$2,255,500,654</u>
FIXED-INCOME INVESTMENTS			
	Corporate Bonds:		
\$ 86,816,441	Financing and Banking with rates ranging from 1.0% to 15.625% and maturities ranging from 1995 to 2024	\$ 85,967,712	\$ 81,623,463
100,164,000	Industrials with variable and fixed rates ranging from 1.0% to 16.5% and maturities ranging from 1993 to 2022	92,077,728	92,352,059
35,788,000	Utilities with fixed and variable rates ranging from 1.0% to 15% and maturities ranging from 1994 to 2026	28,162,939	27,565,173
8,680,000	Transportation with rates ranging from 5% to 12.875% and maturities from 1994 to 2003	8,870,083	8,525,950
112,250,373	Miscellaneous/other with rates ranging from 1.0% to 15.25% and maturities from 1994 to 2023	<u>101,651,024</u>	<u>96,918,214</u>
	TOTAL CORPORATE BONDS	<u>316,729,486</u>	<u>306,984,859</u>

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULE OF INVESTMENTS, CONTINUED

June 30, 1994

<u>Shares/Par Value</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
\$ 7,517,143	Asset-backed securities with rates ranging from 6% to 8.75% and maturities from 1995 to 2000	\$ 7,884,163	\$ 7,685,865
72,769,241	Convertible Bonds with rates ranging from 1.01% to 11.25% and maturities from 1995 to 2015	56,777,597	55,702,411
53,769,122	Collateralized Mortgage Obligations with rates ranging from 1.0% to 15.53% and maturities from 2003 to 2032	52,336,353	48,930,525
57,982,479	Other Marketable Mortgage obligations with rates ranging from 8.75% to 21% and maturities ranging from 2003 to 2029	<u>40,200,924</u>	<u>38,144,067</u>
	TOTAL OTHER FIXED-INCOME INVESTMENTS	<u>157,199,037</u>	<u>150,462,868</u>
	TOTAL FIXED-INCOME INVESTMENTS	<u>473,928,523</u>	<u>457,447,727</u>
	U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS		
\$169,496,528	U.S. Government sponsored and guaranteed with rates ranging from 1.0% to 11.7% and maturities ranging from 1993 to 1994	\$ 160,573,869	\$ 152,840,934
16,171,290	Federal Agency securities with rates ranging from 4.375% to 11.5% and maturities ranging from 1993 to 2023	16,380,452	15,625,509
405,471,000	United States Treasury Bonds/Notes with rates ranging from 1.0% to 12.375% and maturities ranging from 1995 to 2023	<u>310,450,622</u>	<u>299,034,129</u>
	TOTAL U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS	<u>487,404,943</u>	<u>467,500,572</u>

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULE OF INVESTMENTS, CONTINUED

June 30, 1994

<u>Shares/Par Value</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
MONEY MARKET INVESTMENTS			
\$209,589,092	State Street Short-Term Investment Fund	\$ 201,221,627	\$ 201,221,627
62,589,994	Miscellaneous Money Market Investments	<u>24,868,065</u>	<u>24,757,726</u>
	TOTAL MONEY MARKET INVESTMENTS	<u>226,089,692</u>	<u>225,979,353</u>
REAL ESTATE			
	Commingled funds	\$ 163,816,451	\$ 104,562,415
	Separate accounts	<u>193,145,674</u>	<u>90,022,810</u>
	TOTAL REAL ESTATE	<u>356,962,125</u>	<u>194,585,225</u>
ALTERNATIVE INVESTMENTS			
	Venture Capital	90,683,586	99,158,215
	Special Equity	<u>242,415,498</u>	<u>341,683,329</u>
	TOTAL ALTERNATIVE INVESTMENTS	333,099,084	440,841,544
INTERNATIONAL INVESTMENTS			
EQUITIES			
10,057,789	Basic industries	\$ 43,662,615	\$ 47,139,680
11,600,778	Capital goods	59,661,809	68,061,972
11,116,627	Consumer basics	44,339,090	47,527,286
3,535,960	Consumer durable goods	21,313,342	24,508,086
6,852,498	Consumer nondurable goods	36,591,553	39,321,646
4,165,846	Consumer services	9,292,221	11,298,619
10,804,005	Energy	23,570,002	24,228,479
13,250,260	Finance	51,265,813	56,387,358
3,732,091	General business	31,890,123	33,933,812
4,067,917	Shelter	22,666,166	26,863,069
3,828,344	Technology	22,192,808	28,145,732
1,979,752	Transportation	8,522,096	9,077,529
4,826,471	Utilities	24,284,481	29,081,789
70,578,892	Miscellaneous	<u>53,316,532</u>	<u>58,013,042</u>
	TOTAL EQUITIES	<u>452,568,651</u>	<u>503,588,099</u>

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULE OF INVESTMENTS, CONTINUED

June 30, 1994

<u>Shares/Par Value</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
	FOREIGN GOVERNMENT TREASURY OBLIGATIONS		
31,872,162,000	Government and Supranational with rates ranging from 1.0% to 17% and maturities ranging from 1995 to 2023	\$ 187,239,751	\$ 183,814,685
	FIXED INCOME		
987,279,492	Foreign Corporate Bonds with rates ranging from 1.0% to 12.5% and maturities from 1997 to 2026	<u>70,680,969</u>	<u>68,806,918</u>
	TOTAL INTERNATIONAL INVESTMENTS	<u>710,489,371</u>	<u>756,209,702</u>
	TOTAL INVESTMENTS	<u>\$4,821,639,033</u>	<u>\$4,798,064,777</u>

A detailed portfolio listing is available for review at the offices of the Pension Reserves Investment Management Board.

The accompanying notes are an integral part of the financial statements.

le

85

18

02

17

ent

ACME
BOOKBINDING CO., INC.

NOV 07 1998

100 CAMBRIDGE STREET
CHARLESTOWN, MASS.

